

PAOLI PRESBYTERIAN CHURCH

(A Nonprofit Corporation)

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2006 and 2005

Together With

Independent Auditor's Report

PAOLI PRESBYTERIAN CHURCH

DECEMBER 31, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

To The Session
Paoli Presbyterian Church

I have audited the statements of financial position - modified cash basis of PAOLI PRESBYTERIAN CHURCH (a Pennsylvania nonprofit corporation) as of December 31, 2006 and 2005, and the related statements of activities and cash flows - modified cash basis for the year then ended. These financial statements are the responsibility of the Church's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paoli Presbyterian Church as of December 31, 2006 and 2005, and the results of its operations for the years then ended on the basis of accounting described in Note 2.

Katherine R Conlon CPA

Katherine R. Conlon, CPA
Malvern, Pennsylvania
October 30, 2007

PAOLI PRESBYTERIAN CHURCH

STATEMENT OF FINANCIAL POSITION - MODIFIED CASH BASIS

DECEMBER 31, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 210,975	\$ 196,965
Notes receivable - short-term	600	600
Investments	<u>270,018</u>	<u>190,817</u>
Total current assets	<u>481,593</u>	<u>388,382</u>
FIXED ASSETS	<u>4,056,148</u>	<u>3,934,649</u>
OTHER ASSETS		
Notes receivable - long-term	74,075	82,675
Investments - endowment	<u>247,322</u>	<u>224,327</u>
Total other assets	<u>321,397</u>	<u>307,002</u>
Total assets	<u><u>\$4,859,138</u></u>	<u><u>\$4,630,033</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Line of credit	\$ 184,864	\$ 84,842
Mortgage payable - short-term	<u>20,714</u>	<u>19,631</u>
Total current liabilities	205,578	104,473
LONG-TERM LIABILITIES		
Mortgage payable	<u>151,264</u>	<u>183,690</u>
Total liabilities	<u>356,842</u>	<u>288,163</u>
NET ASSETS		
Unrestricted	3,790,864	3,716,373
Temporarily restricted	464,110	401,150
Permanently restricted	<u>247,322</u>	<u>224,327</u>
Total net assets	<u>4,502,296</u>	<u>4,341,870</u>
Total liabilities and net assets	<u><u>\$4,859,138</u></u>	<u><u>\$4,630,033</u></u>

See the independent auditor's report and the accompanying notes which are an integral part of this statement.

PAOLI PRESBYTERIAN CHURCH
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

FOR THE YEAR ENDED DECEMBER 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	December 31, 2006			December 31 2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$1,409,139	\$405,300	\$ 2,217	\$1,816,662
Rental income	33,325	-	-	33,325
Investment income	1,859	7,690	2,886	12,429
Unrealized gain (loss) on investments	-	8,792	16,926	25,718
Net assets released from restrictions	<u>357,856</u>	<u>(357,856)</u>	-	-
Total support and revenue	<u>1,802,179</u>	<u>63,926</u>	<u>22,029</u>	<u>1,888,134</u>
EXPENSES				
Program				
Worship and missions	546,402	-	-	546,402
Property	339,319	-	-	339,319
Church programs	509,728	-	-	509,728
Designated non-mission	2,755	-	-	2,755
Management and general	<u>329,504</u>	-	-	<u>329,504</u>
Total expenses	<u>1,727,708</u>	-	-	<u>1,727,708</u>
Change in net assets	74,471	63,926	22,029	160,426
NET ASSETS, beginning of year	<u>3,716,393</u>	<u>400,184</u>	<u>225,293</u>	<u>4,341,870</u>
NET ASSETS, end of year	<u>\$3,790,864</u>	<u>\$464,110</u>	<u>\$247,322</u>	<u>\$4,502,296</u>

See the independent auditor's report and the accompanying notes which are an integral part of this statement.

PAOLI PRESBYTERIAN CHURCH
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$160,426	\$184,456
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Allowance for bad debt	<u>-</u>	<u>26,874</u>
Cash provided by operating activities	<u>160,426</u>	<u>211,330</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of improvements equipment	(121,499)	(70,510)
Investments (net)	<u>(102,195)</u>	<u>(82,587)</u>
Cash used for investing activities	<u>(223,694)</u>	<u>(153,097)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments received on notes receivable	8,600	1,325
Borrowings on line of credit	100,021	-
Payments on line of credit	-	(55,159)
Payments on mortgage payable	<u>(31,343)</u>	<u>(34,008)</u>
Cash provided by (used for) financing activities	<u>77,278</u>	<u>(87,842)</u>
Net increase (decrease) in cash	14,010	(29,609)
CASH, beginning of year	<u>196,965</u>	<u>226,574</u>
CASH, end of year	<u>\$210,975</u>	<u>\$196,965</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$8,555</u>	<u>\$8,758</u>
Mortgage interest	<u>\$10,156</u>	<u>\$ -</u>
Donated stock	<u>\$51,291</u>	<u>\$95,871</u>

See the independent auditor's report and the accompanying
notes which are an integral part of this statement.

PAOLI PRESBYTERIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

(1) NATURE OF ACTIVITIES

Paoli Presbyterian Church (the "Church") was organized as a Pennsylvania nonprofit corporation on May 9, 1900. The Church is a constituent of the Presbyterian Church of the United States of America and is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry within Paoli, Pennsylvania and the surrounding communities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of the financial statements and the accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

(a) Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Accordingly, revenues are generally recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. No amounts are recognized in the financial statements for non-cash contributions, such as contributed supplies or services. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America primarily because the effects of outstanding promises to give and obligations for expenses unpaid at the date of the financial statements are not included in the financial statements. Accordingly, these financial statements are not intended to present financial condition, results of operations and changes in net assets in conformity with general accepted accounting principles.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of Presentation

The organization follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, to prepare its financial statements in accordance with generally accepted accounting standards. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

(c) Restricted and Unrestricted Support

The organization follows Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, in recording contributions received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(d) Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated between program and supporting services as benefitted.

(e) Total Columns

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations and changes in net assets in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Cash and Cash Equivalents

Cash for purposes of this statement includes cash on hand and deposits in demand accounts at financial institutions.

(g) Investments

The organization's investments are comprised of money funds and mutual funds. They are carried at fair market value.

(h) Fixed Assets

Equipment purchases for assets over \$500 made during the year are capitalized using historical cost basis. Depreciation is not recognized. Expenditures for maintenance and repairs incurred in the ordinary course of operations and assets under \$500 are expensed.

(i) Income Taxes

Paoli Presbyterian Church is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes is provided. Donors may deduct contributions to the organization as provided by the Internal Revenue Code.

(j) Supplies

Supplies purchased during the program year are charged as current expenditures and those remaining at the end of the program year are not inventoried.

(k) Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(l) Special Collections

Certain special collections made by the church are treated as flow-through activity and are shown at the net of revenue and expense in these financial statements. If these items

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(1) Special Collections

were recorded at full value, both revenue and expense would be increased proportionately; accordingly this would have no impact on the change in net assets.

(3) NOTES RECEIVABLE

(a) Note receivable - Clergy

This note consists of a non-interest bearing mortgage loan to an associate pastor of the Church for housing purposes. The note does not call for any monthly payments and becomes due only upon the sale of the property or termination of the pastoral relationship. The Church has the right to share in any gain on the sale of the property.

(b) Note receivable - Housing Assistance

This note consists of a non-interest bearing loan to an individual associated with the Church for housing assistance. At December 31, 2006, \$17,725 must be paid in full by October 18, 2017 or earlier, on the sale or transfer of the home.

(c) Allowance for doubtful accounts

An allowance for doubtful accounts has been established in the amount of \$26,874 for the year ended December 31, 2005.

Notes receivable as of December 31, 2006 and 2005, consists of the following:

	<u>2006</u>	<u>2005</u>
Note receivable - clergy	\$56,950	\$ 64,950
Note receivable - housing assistance	<u>17,725</u>	<u>45,199</u>
Total notes receivable	74,675	110,149
Less: allowance	<u>-</u>	<u>(26,874)</u>
Net notes receivable	<u>\$74,675</u>	<u>\$ 83,275</u>

(4) INVESTMENTS

During the year ended December 31, 2006, Paoli Presbyterian Church received various stock donations. The stock is recorded at fair market value at the time of the donation.

(4) INVESTMENTS (cont'd)

The fair market value of investments consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Operating - Merrill Lynch money funds	\$139,289	\$ 67,688
Housing loan - Merrill Lynch money funds	-	3,888
New Covenant mutual funds - endowment	246,350	223,360
New Covenant mutual funds - other	130,729	119,241
Money Market - endowment	<u>972</u>	<u>967</u>
	<u>\$517,340</u>	<u>\$415,144</u>

(5) FIXED ASSETS

Properties reflected in these financial statements represent the historical actual cost of land, major equipment and building construction. Depreciation is not recognized. The insurance appraised value of the Church building and contents according to a 2005 appraisal was approximately \$8.5 million. Land, buildings, and furniture and equipment at December 31, 2006 and 2005, consisted of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 212,102	\$ 212,102
Land improvements	278,017	278,017
Sanctuary building	2,196,259	2,150,304
Residential properties	623,049	623,049
Furniture and equipment	<u>746,721</u>	<u>671,177</u>
	<u>\$4,056,148</u>	<u>\$3,934,649</u>

(6) LINE OF CREDIT

On November 27, 2002, the Church entered into an agreement for a line of credit with a bank. The Church has available credit of \$400,000 under this line. Borrowings under the line bear interest at the bank's prime rate plus .5% and are secured by certain real property owned by the Church. At December 31, 2006 and 2005, the outstanding balance was \$184,864 and \$84,842, respectively.

(7) MORTGAGE PAYABLE

On April 2, 2004, the Church entered into a mortgage with a bank in the amount of \$250,000. Interest on the note accrues at 5.38% per annum and is payable in 120 monthly installments of principal and interest of \$2,708. The remaining unpaid principal balance is due May 1, 2014. At December 31, 2006 and 2005, the outstanding principal balance was \$171,978 and \$203,321, respectively.

(7) MORTGAGE PAYABLE (CONT'D)

Maturities of long-term debt are estimated as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2007	\$ 20,714
2008	21,856
2009	23,062
2010	24,333
2011	26,204
Thereafter	<u>55,809</u>
	<u>\$171,978</u>

(8) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2006</u>	<u>2005</u>
Missions	\$226,903	\$218,615
Housing	64,950	64,950
Building	16,222	16,222
Non-mission gifts	7,465	18,215
Other	<u>148,570</u>	<u>83,148</u>
	<u>\$464,110</u>	<u>\$401,150</u>

(9) NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

	<u>2006</u>	<u>2005</u>
Missions	\$216,809	\$352,174
Non-mission gifts	18,815	64,832
Building	-	11,752
Pension	-	4,232
Other	<u>122,232</u>	<u>73,097</u>
	<u>\$357,856</u>	<u>\$506,087</u>

(10) REVENUE SOURCES

Paoli Presbyterian Church received approximately 98% of its revenue from contributions for the year ended December 31, 2006 and approximately 97% of its revenue from contributions for the year ended December 31, 2005.

(11) PENSION PLAN

Permanent ministerial staff are eligible to participate in a benefit plan established in 1717 and administered by the Board of Pensions of the Presbyterian Church (USA) for pension and major medical benefits. The Church provides supplemental medical benefits through a self-funded reserve. Contributions to the Board of Pensions were \$56,119 for the year ended December 31, 2006 and \$51,697 for the year ended December 31, 2005.

The Church maintains a pension plan covering all full-time lay employees. Annual contributions of 7.5% of each eligible employee's pay are made to the plan and totaled \$26,263 for the year ended December 31, 2006 and \$22,296 for the year ended December 31, 2005. The Church is also obligated to a former employee for pension totaling \$650 per month.

(12) FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The financial transaction that potentially subjects the organization's concentrations of credit risk consists of the organization's placement of temporary cash investments. The organization creates a credit risk by having on deposit with a financial institution funds in excess of federally insured limits. At December 31, 2006 and 2005, the organization had \$110,975 and \$81,454, respectively, on deposit with one bank in excess of federally insured limits.

(13) PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2005, it was determined by management that temporarily restricted net assets of various special contributions were classified as permanently restricted net assets in the prior year. Accordingly, these assets were recharacterized during the current year as temporarily restricted net assets. An adjustment of \$106,171 was made to move these net assets from one classification to the other.