

PAOLI PRESBYTERIAN CHURCH
(A Nonprofit Corporation)

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2008 and 2007

Together With

Independent Auditor's Report

PAOLI PRESBYTERIAN CHURCH
DECEMBER 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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
August 7, 2009

PAOLI PRESBYTERIAN CHURCH

STATEMENT OF FINANCIAL POSITION - MODIFIED CASH BASIS

DECEMBER 31, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash	\$ -	\$ 18,071
Investments	<u>173,781</u>	<u>214,013</u>
Total current assets	<u>173,781</u>	<u>232,084</u>
FIXED ASSETS	<u>4,200,370</u>	<u>4,144,783</u>
OTHER ASSETS		
Investments - endowment	<u>218,732</u>	<u>316,416</u>
Total other assets	<u>218,732</u>	<u>316,416</u>
Total assets	<u>\$4,592,883</u>	<u>\$4,693,283</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 4,032	\$ 3,718
Line of credit	256,883	49,787
Mortgage payable - short-term	<u>26,448</u>	<u>23,477</u>
Total current liabilities	287,363	76,982
LONG-TERM LIABILITIES		
Mortgage payable	<u>96,862</u>	<u>125,532</u>
Total liabilities	<u>384,225</u>	<u>202,514</u>
NET ASSETS		
Unrestricted	3,958,796	3,949,778
Temporarily restricted	71,545	283,401
Permanently restricted	<u>178,317</u>	<u>257,590</u>
Total net assets	<u>4,208,658</u>	<u>4,490,769</u>
Total liabilities and net assets	<u>\$4,592,883</u>	<u>\$4,693,283</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, 2008

With Comparative Totals for the Year Ended December 31, 2007

	December 31, 2008				December 31 2007
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
SUPPORT AND REVENUE					
Contributions	\$1,072,115	\$317,473	\$ -	\$1,389,588	\$1,645,211
Rental income	34,886	-	-	34,886	31,435
Investment income	-	8,777	2,678	11,455	12,235
Unrealized gain (loss) on investments	-	(40,438)	(81,951)	(122,389)	10,754
Realized loss on investments	-	(723)	-	(723)	(221)
Net assets released from restrictions	<u>496,945</u>	<u>(496,945)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,603,946</u>	<u>(211,856)</u>	<u>(79,273)</u>	<u>1,312,817</u>	<u>1,699,414</u>
EXPENSES					
Program					
Worship and missions	577,502	-	-	577,502	613,531
Property	348,626	-	-	348,626	336,086
Church programs	310,490	-	-	310,490	332,993
Designated non-mission	723	-	-	723	4,617
Management and general	<u>357,587</u>	<u>-</u>	<u>-</u>	<u>357,587</u>	<u>423,714</u>
Total expenses	<u>1,594,928</u>	<u>-</u>	<u>-</u>	<u>1,594,928</u>	<u>1,710,941</u>
Change in net assets	9,018	(211,856)	(79,273)	(282,111)	(11,527)
NET ASSETS, beginning of year	<u>3,949,778</u>	<u>283,401</u>	<u>257,590</u>	<u>4,490,769</u>	<u>4,502,296</u>
NET ASSETS, end of year	<u>\$3,958,796</u>	<u>\$ 71,545</u>	<u>\$178,317</u>	<u>\$4,208,658</u>	<u>\$4,490,769</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(282,111)	\$(11,527)
Non-cash items included in change in net assets:		
Unrealized (gain) loss on investments	122,389	(10,754)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Increase in accounts payable	4,032	-
Decrease in accrued expenses	(3,718)	3,718
Allowance for bad debt	<u>-</u>	<u>17,150</u>
Cash used for operating activities	<u>(159,408)</u>	<u>(1,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of improvements and equipment	(55,587)	(88,635)
Investments (net)	<u>15,527</u>	<u>(2,335)</u>
Cash used for investing activities	<u>(40,060)</u>	<u>(90,970)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments received on notes receivable	-	57,525
Borrowings on line of credit	277,600	-
Payments on line of credit	(70,504)	(135,077)
Payments on mortgage payable	<u>(25,699)</u>	<u>(22,969)</u>
Cash provided by (used for) financing activities	<u>181,397</u>	<u>(100,521)</u>
Net increase (decrease) in cash	(18,071)	(192,904)
CASH, beginning of year	<u>18,071</u>	<u>210,975</u>
CASH, end of year	<u>\$ -</u>	<u>\$ 18,071</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$12,516</u>	<u>\$8,281</u>
Mortgage interest	<u>\$6,324</u>	<u>\$9,183</u>
Donated stock	<u>\$63,418</u>	<u>\$44,805</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, 2008 and 2007

(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 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.

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

(j) Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

(3) INVESTMENTS

During the years ended December 31, 2008 and 2007, Paoli Presbyterian Church received various stock donations. The stock is recorded at fair market value at the time of the donation.

The fair market value of investments consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Operating - Merrill Lynch money funds	\$ 12,053	\$130,946
New Covenant mutual funds - endowment	178,317	257,590
New Covenant mutual funds - other	102,638	141,893
Money Market - endowment	<u>99,505</u>	<u>-</u>
	<u>\$392,513</u>	<u>\$530,429</u>

(4) 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, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 212,102	\$ 212,102
Land improvements	281,187	281,187
Sanctuary building	2,294,959	2,255,376
Residential properties	629,205	623,049
Furniture and equipment	<u>782,917</u>	<u>773,069</u>
	<u>\$4,200,370</u>	<u>\$4,144,783</u>

(5) LINE OF CREDIT

On November 27, 2002, the Church entered into an agreement for a line of credit with a bank. During the current year the line was renewed, to an extended maturity date of July 1, 2010. The Church has available credit of \$400,000 under this line. Borrowing under the line bear interest at WSJ's prime rate and is secured by real property owned by the Church located at 213 and 219 South Valley Road. At December 31, 2008 and 2007, the outstanding balance was \$256,883 and \$49,787, respectively.

(6) 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. The mortgage is secured by real estate located at 215 South Valley Road. At December 31, 2008 and 2007, the outstanding principal balance was \$123,310 and \$149,009, respectively.

Maturities of long-term debt are estimated as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2009	\$ 26,448
2010	27,927
2011	29,478
2012	31,138
2013	<u>8,319</u>
	<u>\$123,310</u>

(7) TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Missions	\$45,020	\$138,215
Non-mission gifts	12,463	3,497
Other	<u>14,062</u>	<u>141,689</u>
	<u>\$71,545</u>	<u>\$283,401</u>

(8) 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>2008</u>	<u>2007</u>
Missions	\$208,808	\$239,763
Non-mission gifts	39,269	13,680
Housing	-	64,950
Building	-	16,222
Other	<u>248,868</u>	<u>129,730</u>
	<u>\$496,945</u>	<u>\$464,345</u>

(9) REVENUE SOURCES

Paoli Presbyterian Church received approximately 99% of its revenue from contributions for the year ended December 31, 2008 and approximately 97% of its revenue from contributions for the year ended December 31, 2007.

(10) 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 \$55,028 for the year ended December 31, 2008 and \$57,217 for the year ended December 31, 2007.

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 \$28,244 for the year ended December 31, 2008 and \$29,663 for the year ended December 31, 2007. The Church is also obligated to a former employee for pension totaling \$650 per month.

The Church also has a pension plan that allows employees to contribute a percentage of their gross pay. Employees are eligible to have pension contributions withheld from their salaries up to the maximum allowed by law. Employee contributions may be tax deferred under Section 403(b) of the Internal Revenue Code. All funds contributed are 100% vested in the employee's name. Employer pension contributions for the year ended December 31, 2008 and 2007 totaled \$20,735 and \$16,399, respectively.