

The Presbytery of the James

Financial Statements

For the Year Ended
December 31, 2010

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Independent Auditors' Report

The Board of Trustees
The Presbytery of the James
Richmond, Virginia

We have audited the accompanying statement of financial position of The Presbytery of the James (the "Presbytery") as of December 31, 2010, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Presbytery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Presbytery of the James as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DRAFT

Richmond, Virginia
May 13, 2011

THE PRESBYTERY OF THE JAMES

Statement of Financial Position December 31, 2010

Assets

Cash and cash equivalents	\$ 905,935
Church remittance receivable	171,105
Note receivable	52,560
Long-term investments	4,150,269
Presbytery office equipment, land and Camp Hanover buildings, improvements and equipment, net	1,480,928
Land for future churches	349,167
Prepaid expenses	8,881
Total assets	<u>\$ 7,118,845</u>

Liabilities and Net Assets

Liabilities:

Accounts payable to General Assembly	\$ 170,525
Accounts payable for Five-Cents-A-Meal Program	16,700
Other accounts payable and accrued liabilities	140,589
Unearned revenue	18,970
Notes payable - Presbyterian Church (U.S.A.)	355,581
Camp Hanover dam loan	29,403
Total liabilities	<u>731,768</u>

Net assets:

Unrestricted	5,178,188
Temporarily restricted	1,130,675
Permanently restricted	78,214
Total net assets	<u>6,387,077</u>

Total liabilities and net assets \$ 7,118,845

THE PRESBYTERY OF THE JAMES

Statement of Activities Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,157,574	\$ 295,089	\$ -	\$ 1,452,663
Camp Hanover fees	549,625	61,480	-	611,105
Dividend and interest income, net	76,950	24,296	-	101,246
Brotherhood Mutual Insurance dividend	24,932	-	-	24,932
Net realized and unrealized gain on investments	165,224	32,747	-	197,971
POJ Evangelism - (Acts 16:5)	8,924	-	-	8,924
Net assets released from restrictions	309,615	(309,615)	-	-
Total revenues, gains and other support	<u>2,292,844</u>	<u>103,997</u>	<u>-</u>	<u>2,396,841</u>
Expenses and other deductions:				
Program services:				
Programs	486,759	-	-	486,759
Camp Hanover	698,429	-	-	698,429
Support for congregations	93,116	-	-	93,116
Committee and board administration	8,539	-	-	8,539
Support services - management and general	770,374	-	-	770,374
Loss on disposal of assets	1,670	-	-	1,670
Total expenses and other deductions	<u>2,058,887</u>	<u>-</u>	<u>-</u>	<u>2,058,887</u>
Change in net assets	233,957	103,997	-	337,954
Net assets, beginning of year	<u>4,944,231</u>	<u>1,026,678</u>	<u>78,214</u>	<u>6,049,123</u>
Net assets, end of year	<u>\$ 5,178,188</u>	<u>\$ 1,130,675</u>	<u>\$ 78,214</u>	<u>\$ 6,387,077</u>

THE PRESBYTERY OF THE JAMES

Statement of Cash Flows Year Ended December 31, 2010

Cash flows from operating activities:	
Change in net assets	\$ 337,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gain on investments	(197,971)
Depreciation	45,282
Loss on disposal of property and equipment	1,670
Accrued interest on note receivable	(1,440)
Changes in operating assets and liabilities:	
Church remittances receivable	44,553
Prepaid expenses	(474)
Unearned revenue	(3,919)
Accounts payable and accrued liabilities	31,122
Net cash provided by operating activities	<u>256,777</u>
Investing activities:	
Purchase of investments	(451,741)
Proceeds from sale of investments	377,615
Purchase of property and equipment	(66,668)
Net cash used in investing activities	<u>(140,794)</u>
Financing activities:	
Principal payments on notes payable	<u>(154,462)</u>
Net decrease in cash and cash equivalents	(38,479)
Cash and cash equivalents, beginning of year	<u>944,414</u>
Cash and cash equivalents, end of year	<u>\$ 905,935</u>
Supplemental information:	
Cash paid for interest	<u>\$ 25,006</u>

THE PRESBYTERY OF THE JAMES

Notes to Financial Statements
For the year ended December 31, 2010

Note 1 – Organization and Nature of Activities

The Presbytery of the James is one of the 173 presbyteries within the larger structure of the Presbyterian Church (U.S.A.) and includes a number of local churches within a geographical district. The Presbytery of the James, Inc. is responsible for the mission and government of member churches within its district, central Virginia.

The financial statements include the accounts of the Presbytery and Trustees of Presbytery of the James, Inc. (the “Presbytery”). The Presbytery’s purpose is to hold legal title to certain assets of the Presbytery, or assets which the Presbytery holds for the benefit of certain member churches. Some of the churches have an equitable ownership in the assets. The Presbytery is funded in part by its member churches and makes acquisitions and transfers of property. The Presbytery may incur liabilities at the Presbytery’s direction.

Note 2 – Summary of Significant Accounting Policies

The Presbytery classifies net assets and revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Net assets of the Presbytery and changes in net assets are reported as follows:

Unrestricted net assets are not subject to donor-imposed stipulations and are currently available at the discretion of the Presbytery, including amounts designated by the Presbytery for specific purposes.

Temporarily restricted net assets are those which are stipulated by donors for specific purposes or by the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Presbytery, the income from which is expendable in accordance with the conditions of each specific donation

Income taxes – The Presbytery has evaluated the effect of GAAP guidance on Accounting for Uncertainty in Income Taxes. The Presbytery is tax exempt under Section 501 (c) (3) of the Internal Revenue Code. Management has evaluated tax positions that could have a significant effect on the financial statements and determined that the Presbytery had no uncertain income tax positions at December 31, 2010.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Presbytery to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Cash and cash equivalents – For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposit accounts, overnight investments, and short-term if the maturity is within three months when the investment is originally acquired. Cash and cash equivalents do not include amounts that are part of managed investment accounts. These amounts are included with investments on the Statement of Financial Position.

THE PRESBYTERY OF THE JAMES

Notes to Financial Statements
For the year ended December 31, 2010

Note 2 – Summary of Significant Accounting Policies (concluded)

Church remittance receivable – Church remittance receivables are comprised of amounts from member churches.

Note receivable – Note receivable consists of a note from an individual that is recorded at the face value plus accrued interest, less principal payments collected. The note receivable is secured and features a delayed payment schedule.

Investments – Unless specific prohibitive clauses are contained in a gift instrument, funds for investment have been combined into one investment pool. Revenues arising from the ownership or disposition of pooled investments are allocated to the various funds based on percentage of ownership interest of such funds in the investment pool. Investments in debt and equity securities have readily determinable fair values and are reported at fair value in the Statement of Financial Position. Unrealized gains and losses are reflected in the Statement of Activities.

Property and equipment – Property and equipment are recorded at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets, generally three to thirty years. The cost of routine maintenance and repairs is charged to operations as incurred. When property and equipment are sold or otherwise disposed, the asset account and related accumulated depreciation are relieved, and any gain or loss is included in current year's operations.

Financial credit risk – The Presbytery places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage, through December 31, 2012, for certain qualifying and participating non-interest bearing transaction accounts. The Presbytery from time to time, may have amounts on deposit in excess of the insured limited.

Note 3 – Long-Term Investments

The market values of long-term investments as of December 31, 2010 are summarized as follows:

	Market Value	Cost Basis
Equities/Stocks	\$ 2,428,903	\$ 2,112,156
Debt securities/Bonds	1,142,217	1,103,948
Other assets	556,570	571,490
Charitable gift annuity	22,579	35,772
Total long-term investments	<u>\$ 4,150,269</u>	<u>\$ 3,823,366</u>

THE PRESBYTERY OF THE JAMES

Notes to Financial Statements
For the year ended December 31, 2010

Note 3 – Long-Term Investments (concluded)

Investment return for 2010 is as follows:

Interest and dividends	\$	124,691
Unrealized/Realized loss on investments		197,971
Administrative fees		<u>(24,905)</u>
Total investment income (loss)	\$	<u><u>297,757</u></u>

Investment income is allocated as follows:

Unrestricted net assets	\$	240,714
Temporarily restricted net assets		<u>57,043</u>
Total as above	\$	<u><u>297,757</u></u>

Note 4 – Property and Equipment

Property and equipment consists of the following as of December 31, 2010:

Land	\$	655,317
Land improvements		617,143
Buildings		636,341
Equipment and furniture		316,518
Camp Hanover swimming pool and enclosure		<u>157,671</u>
Total		2,382,990
Less accumulated depreciation		<u>(902,062)</u>
Total land, buildings, improvements and equipment, net	\$	<u><u>1,480,928</u></u>

In addition to the land disclosed above, the Presbytery also holds title to land consisting of sites for future churches. The following land, consisting of property sites for future churches, is held at cost as of December 31, 2010:

6 Acres on Patterson Avenue	\$	19,167
14 Acres Stafford County - Aqua District		<u>330,000</u>
Total property sites for future churches	\$	<u><u>349,167</u></u>

THE PRESBYTERY OF THE JAMES

Notes to Financial Statements
For the year ended December 31, 2010

Note 5 – Retirement Plan

The Presbytery contributes to a retirement plan for eligible personnel. The plan is administered by the Board of Pensions of the Presbyterian Church (U.S.A.). For the year ended December 31, 2010, the Presbytery contributed \$35,509 to the plan on behalf of eligible personnel.

Note 6 – Leases

The Presbytery shares its office space with an organization under the larger structure of the Presbyterian Church (U.S.A.). Effective October 1, 2007, the Presbytery entered into a lease arrangement with this organization, which expires in September 2011. The lease called for monthly payments of \$2,926 through September 2009 and increased to \$2,970 per month through September 2010. Beginning October 2010, the monthly payment increased to \$3,014 through the remainder of the lease term. Future minimum lease payments are as follows:

2011	<u>\$ 27,124</u>
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Rent expense for the year ended amounted to \$35,770 and is included in the Statement of Activities in support services – management and general.

Note 7 – Unrestricted Net Assets

Unrestricted net assets include designated funds by the Presbytery for the following purposes at December 31, 2010:

Church development funds	\$ 1,862,629
Capital replacement funds	42,977
Camp Hanover gift fund	<u>6,792</u>
Total	<u>\$ 1,912,398</u>

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets relate to the following at December 31, 2010:

Church development funds	\$ 157,230
Camp Hanover funds	216,348
Presbytery program funds	62,272
Funds managed for others	476,440
Providence Church in Powhatan	195,806
Presbyterian Foundation - Charitable Remainder Trust Interest	<u>22,579</u>
	<u>\$ 1,130,675</u>

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Notes to Financial Statements
For the year ended December 31, 2010

Note 9 – Permanently Restricted Net Assets

Permanently restricted net assets relate to the following at December 31, 2010:

Eva Ross Barndt - annual net income to the	
Home Mission committee of the Presbytery	\$ 500
Sallie W. Peake Trust	75,714
Providence Church in Powhatan	2,000
	<u>\$ 78,214</u>

Note 10 – Endowment Funds

The Presbytery holds three separate endowment funds, which were established for a variety of purposes. The endowment funds include funds with donor-restricted stipulations. As required by accounting principles generally accepted in the United States, net assets associated with these endowment funds, including funds designated by the Business Affairs Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Business Affairs Committee of the Presbytery has interpreted the State Prudent Management of Institutional Funds Act (the “Act”) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Presbytery classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets’ real value; that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. In accordance with the Act, the Presbytery considers the following factors in making a determination to appropriate or accumulate funds in the endowments designated by the Business Affairs Committee:

- The duration and preservation of the fund
- The purposes of the Presbytery and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Presbytery
- The investment policies of the Presbytery

Endowment Net Asset Composition by Type of Fund as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds	\$ -	\$ 228,722	\$ 78,214	\$ 306,936

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Notes to Financial Statements
For the year ended December 31, 2010

Note 10 – Endowment Funds (concluded)

Change in Endowment Net Assets for the Fiscal Year Ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning balance	\$ -	\$ 211,631	\$ 78,214	\$ 289,845
Investment return:				
Investment income	-	12,615	-	12,615
Net appreciation/(depreciation)	-	5,968	-	5,968
Total investment return	-	18,583	-	18,583
Appropriations for expenditures	-	(1,492)	-	(1,492)
Total	\$ -	\$ 228,722	\$ 78,214	\$ 306,936

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Presbytery to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2010.

Return objectives and risk parameters – The Presbytery has adopted investment and spending policies for donor-restricted endowment funds that attempt to provide a predictable stream of funding to the Presbytery. In addition to providing a predictable stream of funding, the adopted investment and spending policies also seek to maintain the purchasing power of the endowment assets. Endowment assets include assets of donor-restricted funds that the Presbytery must hold in perpetuity, or for a donor-specified period(s). Some donor-restricted endowment funds restrict annual distributions to net income. The Presbytery uses the same investment policies and intends to produce the same investment results as mentioned above for these donor-restricted endowment funds.

Strategies Employed for Achieving Objectives – The primary objective of the Investment Policy for the Presbytery is to outline the investment objectives so that a maximum total rate of return will be realized given a level of risk consistent with the preservation of capital and anticipated future cash flow requirements. The objectives of this policy shall be accomplished utilizing a balanced strategy of equities (70%) and fixed income (30%) and cash equivalents in a mix which is conducive to participation in rising markets while allowing for adequate protection in falling markets.

Spending policy and how the investment objectives relate to spending policy – The Presbytery, under the guidance of the Business Affairs Committee, and in compliance with the donor’s restrictions, allows for distribution each year, any income earned from the endowment funds. The actual distributions in any given year from the endowments may be less than the income earned and are allocated based upon the financial needs of the Presbytery.

Note 11 – Member Congregations

In the Presbyterian Church, “all property held by or for a particular church...whether legal title is lodged in a corporation, a trustee or trustees, or an unincorporated association, and whether the property is used in programs of a particular church...or retained for the production of income, is held in trust nevertheless for the use and benefit of the Presbyterian Church (USA).” (Book of Order, G-8.0201). Therefore, property may be titled to trustees of individual congregations or to corporations of individual congregations and would not be recorded by the Presbytery. However, should the property no longer be used as a congregation of the Presbyterian Church (USA), the property would revert to the Presbytery for its mission and ministry.

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Notes to Financial Statements
For the year ended December 31, 2010

Note 12 – Fair Value Measurements

The Presbytery has adopted the accounting standards on fair value measurements, which provides a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

Level 1 – Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 by level within the fair values hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities/Stocks	\$ 2,428,903	\$ -	\$ -	\$ 2,428,903
Debt securities/Bonds	1,142,217	-	-	1,142,217
Other assets	556,570	-	-	556,570
Charitable gift annuity	-	22,579	-	22,579
	<u>\$ 4,127,690</u>	<u>\$ 22,579</u>	<u>\$ -</u>	<u>\$ 4,150,269</u>

Note 13 – POJ Building Fund

The proceeds of the sale of the Presbytery building and land in 2007 is included in the Statement of Financial Position. The combination of cash equivalents and long term investments total \$1,724,654 as of December 3, 2010.

Note 14 – Notes Payable

In March 1998, the Presbytery entered into a 20-year note payable, collateralized by a deed of trust on real estate, with the Presbyterian Church (U.S.A.) General Assembly related to the purchase of 14 acres of land in Stafford County, Virginia. The note payable bears interest at the rate of 6%, with monthly payments of principal and interest totaling \$2,025. The outstanding balance at December 31, 2010 was \$141,313.

In December 2003, the Presbytery entered into a 20-year note payable, collateralized by a deed of trust on real estate, with the Presbyterian Church (U.S.A.) General Assembly related to 12.8 acres in Greene

THE PRESBYTERY OF THE JAMES

Notes to Financial Statements
For the year ended December 31, 2010

Note 14 – Notes Payable (concluded)

County, Virginia. Interest only payments of \$800 per month were due through July 2008. In August 2008, monthly principal and interest payments began, bearing interest at the rate of 6%, totaling \$2,025. The outstanding balance at December 31, 2010 was \$214,268.

The Presbytery has entered into a note agreement with a bank providing for maximum borrowings of \$500,000. As of December 31, 2010, the Presbytery owed an amount of \$29,403 under the note agreement. The note is non-revolving. Interest under the note is payable in monthly installments, at the rate of 6.64%, and principal payments were due in annual installments of \$125,000. The balance of \$29,403 will be paid in January 2011.

The annual principal maturities of the notes payable for the next five years and thereafter are as follows:

2011	\$	57,436
2012		29,762
2013		31,598
2014		33,546
2015		35,615
Thereafter		197,027
	\$	<u>384,984</u>

The Presbytery incurred interest expense in the amount of \$25,006 during 2010.

Note 15 – Commitments and Contingencies

The Presbytery is contingently liable as guarantor for notes payable of several member churches as of December 31 2010, which are as follows:

Three Chopt Presbyterian Church	\$	1,247
Spotsylvania Presbyterian Church		67,998
St. Andrews Presbyterian Church		221,354
Brandermill Presbyterian Church		1,231,731
Swift Creek Presbyterian Church		238,428
Louisa Presbyterian Church		279,299
Blue Ridge Presbyterian Church		184,167
Summit Presbyterian Church		296,059
Total	\$	<u>2,520,283</u>

From time to time, the Presbytery is involved in litigation that it considers to be in the normal course of business. The Presbytery is not presently involved in any legal proceedings which management expects individually or in the aggregate to have a material adverse effect on its financial condition or results of operations.

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Notes to Financial Statements
For the year ended December 31, 2010

Note 16 – Guarantees

Under its articles of incorporation, the Presbytery has certain obligations to indemnify its current and former trustees, officers and directors for certain events or occurrences while the trustee, officer or director is, or was serving, at the Presbytery's request in such capacities. The maximum liability under these obligations is unlimited; however, the Presbytery's insurance policies serve to limit its exposure. The Presbytery believes that the estimated fair value of these indemnification obligations is minimal.

Note 17 – Funds to be Distributed

The Presbytery received a pass-through grant award for \$50,000. The funds have not been distributed and are included in other accounts payable and accrued liabilities in the Statement of Financial Position.

Note 18 – Subsequent Events

In the preparation of its financial statements, the Presbytery considered subsequent events for potential recognition and/or disclosure in the December 31, 2010 financial statements through May 13, 2011, which was the date the Presbytery's financial statements were available to be issued.