

THE PRESBYTERY OF THE JAMES

FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2019

And Report of Independent Auditor

THE PRESBYTERY OF THE JAMES

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Report of Independent Auditor

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

We have audited the accompanying financial statements of The Presbytery of the James (the "Presbytery"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Presbytery as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Richmond, Virginia
May 11, 2020

THE PRESBYTERY OF THE JAMES
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

Cash and cash equivalents	\$	382,181
Church remittance receivable		140,393
Notes receivable		243,517
Prepaid expenses		9,819
Investments		5,340,590
Property and equipment, net		1,129,545
Land for future church		19,167
Total Assets	\$	7,265,212

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable to General Assembly	\$	39,442
Other accounts payable and accrued liabilities		59,382
Total Liabilities		98,824

Net Assets:

Without donor restrictions		6,554,020
With donor restrictions		612,368
Total Net Assets		7,166,388
Total Liabilities and Net Assets	\$	7,265,212

THE PRESBYTERY OF THE JAMES
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Contributions	\$ 1,399,292	\$ 190,490	\$ 1,589,782
Camp Hanover contributions	20,194	53,659	73,853
Camp Hanover fees	160,732	-	160,732
Investment gain, net	1,121,462	110,849	1,232,311
Net assets released from restrictions	928,028	(928,028)	-
Total Revenues, Gains, and Other Support	<u>3,629,708</u>	<u>(573,030)</u>	<u>3,056,678</u>
Expenses and Other Deductions:			
Program Services:			
Programs	386,182	-	386,182
Camp Hanover	1,324,353	-	1,324,353
Support for congregations	318,098	-	318,098
	<u>2,028,633</u>	<u>-</u>	<u>2,028,633</u>
Support Services - management and general	672,608	-	672,608
Total Expenses and Other Deductions	<u>2,701,241</u>	<u>-</u>	<u>2,701,241</u>
Change in net assets before net donation of assets and liabilities to Camp Hanover Inc.	928,467	(573,030)	355,437
Net donation of assets and liabilities to Camp Hanover, Inc.	<u>(2,594,283)</u>	<u>-</u>	<u>(2,594,283)</u>
Change in net assets	(1,665,816)	(573,030)	(2,238,846)
Net assets, beginning of year	8,219,836	1,185,398	9,405,234
Net assets, end of year	<u>\$ 6,554,020</u>	<u>\$ 612,368</u>	<u>\$ 7,166,388</u>

THE PRESBYTERY OF THE JAMES
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services					Total Program Services	Support Services	Total Services
	Camp Hanover	Leadership Connection Team (LCT)	Mission and Service Team (MAST)	Funds Managed for Others	Board Designated		Management and General	
Salaries and Benefits:								
Salaries	\$ 149,778	\$ 77,000	\$ -	\$ -	\$ -	\$ 226,778	\$ 167,807	\$ 394,585
Payroll taxes	10,875	-	-	-	-	10,875	15,840	26,715
Employee benefits	63,073	-	-	-	-	63,073	106,922	169,995
General Expenses:								
Capital replacement reserves	10,000	-	-	-	-	10,000	7,500	17,500
Copiers, maintenance, and supplies	6,420	-	-	-	-	6,420	-	6,420
Fundraising	6,022	-	-	-	-	6,022	-	6,022
Internal committee expenses	3,695	319	128	-	6,336	10,478	27,864	38,342
Insurance	29,525	-	-	-	-	29,525	2,558	32,083
Professional development	2,680	-	-	-	-	2,680	-	2,680
Membership and dues	2,347	-	-	-	-	2,347	-	2,347
Per Capita and General Assembly dues	-	-	-	-	-	-	218,319	218,319
Other general expenses	-	-	-	-	-	-	3,358	3,358
Professional expenses	3,470	-	-	-	-	3,470	22,492	25,962
Postage and supplies	400	-	-	-	-	400	2,238	2,638
Technology and communications	-	-	-	-	-	-	41,886	41,886
Grants and awards	-	95,529	78,998	318,098	40,314	532,939	-	532,939
Startup funding and support provided	781,000	-	-	-	-	781,000	-	781,000
Camp Expenses:								
Food expenses	37,690	-	-	-	-	37,690	-	37,690
Camp activities	78,722	-	-	-	-	78,722	-	78,722
Promotion and publicity	11,352	-	-	-	-	11,352	-	11,352
Operating Expenses:								
Depreciation	64,236	-	-	-	-	64,236	18,710	82,946
Repairs and maintenance	26,890	-	-	-	87,558	114,448	11,634	126,082
Other operating expenses	11,629	-	-	-	-	11,629	6,528	18,157
Transportation	3,855	-	-	-	-	3,855	3,172	7,027
Utilities	20,694	-	-	-	-	20,694	15,780	36,474
Total Expenses	\$ 1,324,353	\$ 172,848	\$ 79,126	\$ 318,098	\$ 134,208	\$ 2,028,633	\$ 672,608	\$ 2,701,241

The accompanying notes to the financial statements are an integral part of this statement.

THE PRESBYTERY OF THE JAMES

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:

Change in net assets	\$ (2,238,846)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Net realized and unrealized gain on investments	(1,131,646)
Depreciation	82,946
Accrued interest on notes receivable	(1,127)
Net donation of non-cash assets and liabilities to Camp Hanover, Inc.	3,124,283
Changes in operating assets and liabilities:	
Church remittances receivable	33,208
Prepaid expenses	9,461
Unearned revenue	230,880
Accounts payable and accrued liabilities	(40,128)
Net cash from operating activities	<u>69,031</u>

Cash flows from investing activities:

Purchase of investments	(2,487,793)
Issuance of notes receivable	(200,000)
Proceeds from sale of investments	2,444,018
Purchase of property and equipment	(496,345)
Net cash from investing activities	<u>(740,120)</u>

Net decrease in cash and cash equivalents	(671,089)
Cash and cash equivalents, beginning of year	<u>1,053,270</u>
Cash and cash equivalents, end of year	<u>\$ 382,181</u>

Supplemental information:

Cash paid for interest	<u>\$ 3,338</u>
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THE PRESBYTERY OF THE JAMES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1—Organization and nature of activities

The Presbytery of the James is one of the 171 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 discretion.

Note 2—Summary of significant accounting policies

The Presbytery classifies net assets and revenues, 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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Presbytery's management and the Board of Trustees.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Presbytery or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Income Taxes – The Presbytery has evaluated the effect of generally accepted accounting principles in the United States of America ("U.S. 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, 2019. The Presbytery is not currently under audit by any tax jurisdiction.

Estimates – The preparation of financial statements in conformity with U.S. GAAP 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 investments 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 long-term investments on the statement of financial position.

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

THE PRESBYTERY OF THE JAMES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 2—Summary of significant accounting policies (continued)

Notes Receivable – Notes receivable consist of a note from a church and the purchase of a term note from the Presbyterian Church (U.S.A.) Investment and Loan Program (the “PILP”) which is a not-for-profit corporation that provides low-cost loans to congregations, governing bodies, and related entities of the Presbyterian Church (U.S.A.). The PILP raises funds for lending by selling interest-bearing term notes. The notes are recorded at the face value, plus accrued interest and less principal payments collected. The note from a church 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 activities.

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 covers \$250,000 for substantially all depository accounts. The Presbytery from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2019, the Presbytery did not have accounts exceeding these insured amounts.

New Accounting Pronouncements – As of January 1, 2019, the Presbytery implemented Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and its related amendments. Following the adoption of the ASU, the Presbytery continues to recognize revenue for Camp Hanover fees as services are provided, which corresponds to the period in which the related services are rendered. There was no material impact to the financial statements as a result of adoption. The ASU has been applied retrospectively to all periods presented, with no effect on change in net assets, total net assets, or previously issued financial statements.

As of January 1, 2019, the Presbytery implemented FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The adoption of this standard allows for contributions to follow guidance in FASB Accounting Standards Codification (“ASC”) 958-605, *Not-for-Profit Entities (Topic 958) – Revenue Recognition*, rather than the guidance provided in ASC 606 discussed above. There were no material impacts to the financial statements and underlying accounting as a result of this implementation, which has been adopted and applied retrospectively.

THE PRESBYTERY OF THE JAMES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 2—Summary of significant accounting policies (continued)

Revenue Recognition – The revenues from the Presbytery’s primary activities are summarized as follows:

Contribution Revenue – The primary source of contributions for the Presbytery is through shared mission support from member churches. The churches will provide an annual statement of intent which details the amount the church expects to contribute for the year. The member churches are not liable for the amount included on the statement of intent; however, payment is implied in the *Book of Order*. Since the statement of intent does not meet the criteria of an unconditional promise to give, it is treated as an intention to give and revenue is recognized as payments on the statement of intent are received. However, contributions from member churches include amounts in-transit at year-end.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Program Revenue – The Presbytery operates a summer camp program, Camp Hanover. The primary sources of revenue from the camp are from camper fees and fees for retreat or overnight groups where the performance obligation is the delivery of the program. Participants can either register on-line or through mail-in applications which include various activities with specified prices. Fees for camps and retreats are set by the Presbytery and include meals, lodging, staffing, and facility costs. These services are highly interrelated with each other and are therefore considered to be a single performance obligation. The majority of fees are paid in advance when the registrations are completed and are initially recognized as deferred revenue (contract liabilities) until delivery of each individual camp or retreat, at which point revenue is recognized. The majority of camps and retreats occur in the summer months which fall within the fiscal year.

Effective July 1, 2019, Camp Hanover, Inc. was established as a separate not-for-profit corporation as described in detail in Note 4, and as a result the Presbytery no longer received camper fees and no program revenue specific to Camp Hanover was recognized after this date. The deferred revenue from contract liabilities as of July 1, 2019 was transferred to Camp Hanover, Inc. and as such deferred revenue from contract liabilities as of December 31, 2019 was \$-0-.

Functional Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among Camp Hanover, Leadership Connection Team, Mission and Service Team, Funds Managed for Others, Board Designated Funds, Donations to Camp Hanover, Inc. and Management and General Supporting Services. Such allocations are determined by management on an equitable basis. Direct identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to the various programs and supporting services based on time and effort.

THE PRESBYTERY OF THE JAMES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 3—Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet, comprise the following:

Financial assets at year-end:	
Cash and cash equivalents	\$ 382,181
Church remittance receivable	140,393
Investments	<u>5,340,590</u>
Total financial assets at year-end	<u>5,863,164</u>
Less amounts not available to be used for general expenditures within one year:	
Subject to purpose restrictions	407,136
Subject to time restrictions	<u>205,232</u>
Financial assets not available to be used within one year	<u>612,368</u>
Financial assets available to be used within one year	<u>\$ 5,250,796</u>

The Presbytery has board-designated assets limited to use which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets available to be used within one year. The Presbytery has other assets limited to use for donor-restricted purposes and endowed investments. These assets limited in use, which are more fully described in Note 9 are not available within one year.

As part of the Presbytery's liquidity management plan, cash in excess of daily requirements are invested in the RBC Wealth Management investment accounts. The Presbytery considers general expenditures to include program expenses, management and administrative expense, and any commitments or liabilities to be paid in the subsequent year.

Note 4—Donation to Camp Hanover, Inc.

As of July 1, 2019, Camp Hanover incorporated as a separate 501c(3) not-for-profit corporation ("Camp Hanover, Inc.") to be governed according to its own bylaws and Board of Directors. Effective upon its incorporation, Camp Hanover, Inc. entered into a covenant agreement (the "Covenant Agreement") with the Presbytery. As a result, Camp Hanover, Inc. agreed to hold its property in trust for the Presbytery in conformance with *Book of Order, G-4.0203*, which is discussed further in Note 11. In the event of dissolution, Camp Hanover, Inc.'s residual assets will revert back to the Presbytery or its successor. Additionally, the Presbytery is required to provide startup funding, annual support, and to transfer custodianship of existing Camp Hanover designated funds to Camp Hanover, Inc.

On July 1, 2019, the Presbytery donated affiliated assets net of liabilities to Camp Hanover, Inc. The net amount donated to Camp Hanover, Inc. for the year ended December 31, 2019 was \$2,594,283 and is recorded as a contribution expense directly in the statement of activities. Since Camp Hanover, Inc. has agreed to hold its property in trust for the Presbytery, the fair value of the assets and liabilities contributed was determined to be equal to the carrying value. As a result, no gain or loss was recognized for the difference between book value and fair value of the assets and liabilities.

THE PRESBYTERY OF THE JAMES
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 4—Donation to Camp Hanover, Inc. (continued)

The Presbytery also provided funding to Camp Hanover, Inc. in accordance with the Covenant Agreement. The total support provided for the year ended December 31, 2019 was \$781,000 and is recorded as a contribution expense in the statement of activities within Camp Hanover program services.

The following table presents the contributions to Camp Hanover, Inc. for the year ended December 31, 2019:

Donation of property and equipment, net	\$ 2,320,318
Transfer of custodianship of investments, Camp Hanover designated funds with donor restrictions	532,239
Reduction of liabilities associated with Camp Hanover operations	(14,810)
Reduction of deferred summer camp revenue	<u>(243,464)</u>
Net donation of assets and liabilities	<u>2,594,283</u>
Cash contributed for startup funding	185,000
Transfer of custodianship of investments, facilities, maintenance, and improvement funding	530,000
Cash contributed for annual support	<u>66,000</u>
Startup funding and support provided	<u>781,000</u>
Total	<u><u>\$ 3,375,283</u></u>

Note 5—Investments

The fair values of investments as of December 31, 2019 are summarized as follows:

	Fair Value	Cost Basis
Equities/stocks	\$ 4,640,171	\$ 3,211,744
Debt securities/bonds	188,948	188,335
Other assets	511,471	498,078
Total investments	<u><u>\$ 5,340,590</u></u>	<u><u>\$ 3,898,157</u></u>

Investment return for 2019 is as follows:

Unrealized/realized gain on investments	\$ 1,131,646
Interest and dividend income	134,131
Administrative fees	<u>(33,466)</u>
Total investment gain, net	<u><u>\$ 1,232,311</u></u>

Investment income is based on the average assets held during the year and allocated as follows:

Net assets without restrictions	\$ 1,121,463
Net assets with restrictions	110,848
Total	<u><u>\$ 1,232,311</u></u>

THE PRESBYTERY OF THE JAMES
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 6—Property and equipment

Property and equipment consists of the following as of December 31, 2019:

Land	\$	774,178
Land improvements		16,780
Buildings		272,949
Equipment and furniture		182,305
Cemetery plots		12,000
Total		<u>1,258,212</u>
Less accumulated depreciation		<u>(128,667)</u>
Total land, buildings, improvements, and equipment, net	\$	<u><u>1,129,545</u></u>

In addition to the land disclosed above, the Presbytery also holds title to land consisting of a site for future a church. The following land is held at cost as of December 31, 2019:

Six acres on Patterson Avenue, Goochland, Virginia	\$	<u><u>19,167</u></u>
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Note 7—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, 2019, the Presbytery contributed \$36,163 to the plan on behalf of eligible personnel.

Note 8—Board-designated net assets

Net assets without donor restriction includes designated funds by the Presbytery for the following purposes at December 31, 2019:

Church development funds	\$	3,903,038
Dismissed church proceeds		<u>2,451,060</u>
Total board-designated net assets	\$	<u><u>6,354,098</u></u>

These amounts include an operating reserve that was established by the Presbytery to provide for liquid funds in the event of short-term cash flow needs for unanticipated events that would necessitate the use of reserves to continue the operations and mission of the organization.

THE PRESBYTERY OF THE JAMES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 9—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2019:

Purpose restricted:		
Church development funds	\$	251,861
Presbytery program funds		81,054
Capital projects funds		67,547
Funds managed for others		6,674
Time restricted for endowments, some of which is perpetual in nature:		
Providence Powhatan		202,732
Eva Ross Barndt - annual net income to the Home Mission committee of the Presbytery		500
Anne Bolling Hobson Trust		2,000
Total	\$	<u>612,368</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or other events specified by donors as follows for the year ended December 31, 2019:

Satisfaction of purpose restriction	\$	347,233
Transfer of restricted funds to Camp Hanover, Inc.		532,239
Appropriation for expenditure		48,556
	\$	<u>928,028</u>

Note 10—Endowment funds

The Presbytery holds four separate endowment funds, which were established for a variety of purposes. The endowment funds include funds with donor-restricted stipulations. As required by U.S GAAP, net assets associated with these endowment funds, including funds designated and approved by the Presbytery to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Communication and Coordination Team and the Board of Trustees of the Presbytery has interpreted the *Uniform 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 net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

THE PRESBYTERY OF THE JAMES
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 10—Endowment funds (continued)

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 net assets with donor restrictions 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 and approved by the Presbytery:

- 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, 2019:

	Without Restrictions	With Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 2,500	\$ 2,500
Accumulated investment gains	-	202,732	202,732
Endowment funds	<u>\$ -</u>	<u>\$ 205,232</u>	<u>\$ 205,232</u>

Change in endowment net assets for the fiscal year ended December 31, 2019:

	Without Restrictions	With Restrictions	Total
Endowment funds, beginning balance	\$ -	\$ 317,233	\$ 317,233
Investment gain, net	-	41,168	41,168
Transfer of restricted funds to Camp Hanover, Inc.	-	(104,613)	(104,613)
Appropriations for expenditures	-	(48,556)	(48,556)
Endowment funds, ending balance	<u>\$ -</u>	<u>\$ 205,232</u>	<u>\$ 205,232</u>

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, 2019.

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. 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.

THE PRESBYTERY OF THE JAMES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 10—Endowment funds (continued)

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 Communication and Coordination Team and the Board of Trustees, 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 (U.S.A.), "All property held by or for a congregation, a presbytery, a synod, the General Assembly, or the Presbyterian Church (U.S.A.), 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 congregation or of a higher council or retained for the production of income, is held in trust nevertheless for the use and benefit of the Presbyterian Church (U.S.A.)." (*Book of Order, G-4.0203*). 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 (U.S.A.), the property would revert to the Presbytery of the James for its mission and ministry.

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 U.S. 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.

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Note 12—Fair value measurements (continued)

The following method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Presbytery believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2019.

Investments – Equities/Stocks, Bonds, and Other Assets – Valued at the closing price reported on the active market on which the individual securities are traded.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 by level within the fair values hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks:				
Basic materials	\$ 359,423	\$ -	\$ -	\$ 359,423
Consumer cyclical	467,944	-	-	467,944
Consumer defensive	11,679	-	-	11,679
Energy	168,722	-	-	168,722
Financial services	1,351,069	-	-	1,351,069
Healthcare	503,813	-	-	503,813
Industrials	422,486	-	-	422,486
Technology	973,015	-	-	973,015
International	394,220	-	-	394,220
Bonds:				
Corporate bond	-	188,948	-	188,948
Mutual Funds:				
Multi-asset	110,447	-	-	110,447
Managed futures	388,824	-	-	388,824
Total investments at fair value	<u>\$ 5,151,642</u>	<u>\$ 188,948</u>	<u>\$ -</u>	<u>\$ 5,340,590</u>

Note 13—POJ building fund

The proceeds of the sale of the Presbytery Office Park in 2007 are included in the statement of financial position.

By action of the Presbytery on October 20, 2012, \$1,500,000 was awarded to 12 grant requests. In addition to this allocation, \$300,000 was set aside to acquire the property at 3218 Chamberlayne Avenue (former Synod Office Building). The cost of the building was \$220,000. The remaining \$80,000 was used for improvements and repairs to the building and land.

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Note 13—POJ building fund (continued)

As of December 31, 2019, the following distributions have been made:

Camp Hanover Purpose Group*	\$ 453,155
Madeline's House (SPIM)	100,000
Haiti Purpose Group (Cindy Corell)	116,027
Stewardship Purpose Group	126,361
Meadows Presbyterian Church (Tumaini Vocational Training Centre)*	40,000
Tabor Presbyterian Church (Crozet Cares)	105,000
Culpeper Presbyterian Church (Manna Ministry)	27,000
First Things First Purpose Group	21,000
Small Church Ministry Purpose Group	1,267
Lord Jesus Korean Church	205,600
Union Presbyterian Seminary	280,000
	<u>\$ 1,475,410</u>

*Some expenditures occurred in 2013.

As of December 31, 2019, \$24,590 of the \$1,500,000 grant requests awarded is remaining.

Note 14—Commitments and contingencies

The Presbytery is contingently liable as guarantor for notes payable of several member churches as of December 31, 2019 which are as follows:

First United Presbyterian Church	\$ 42,000
Zion Hill Presbyterian Church	5,000
Thyne Memorial Presbyterian Church	23,112
First United Presbyterian Church	133,109
Westminster Presbyterian Church	386,874
Tappahannock Presbyterian Church	351,047
Bon Air Presbyterian Church	410,478
Summit Presbyterian Church	318,000
Lord Jesus Korean Church	1,678,970
Total	<u>\$ 3,348,590</u>

In June 2019, one of the Presbytery's member churches entered into a loan agreement with the PILP. As a condition for obtaining the loan, supporting investments in interest-bearing term notes totaling \$300,000 were required to be made into the program to be held as collateral for the loan. Of these amounts, the Presbytery invested \$200,000 into a 60 month term note that accrues interest at 2.23%, which is held as collateral.

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Note 14—Commitments and contingencies (continued)

The Presbytery has contractually agreed to support Camp Hanover, Inc. through the Covenant Agreement. As a result, the Presbytery has agreed to provide semi-annual facilities maintenance and improvement funding through July 1, 2020 totaling \$410,000 and to provide monthly annual support of the ministry and mission of Camp Hanover, Inc. through December 31, 2024 totaling \$570,000.

The following is a schedule, by years, of the future payments to be provided by the Presbytery under the Covenant Agreement with Camp Hanover, Inc. as of December 31, 2019:

2020	\$	536,000
2021		120,000
2022		114,000
2023		108,000
2024		102,000
Total	\$	<u>980,000</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.

Note 15—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 the estimated fair value of these indemnification obligations is minimal.

Note 16—Subsequent events

In the preparation of its financial statements, the Presbytery considered subsequent events for potential recognition and/or disclosure in the December 31, 2019 financial statements through May 11, 2020, which was the date the Presbytery's financial statements were available to be issued.

As a result of the spread of COVID-19, economic uncertainties have arisen, which are likely to negatively impact unrealized and realized gains related to the Presbytery's investment portfolio and collection of contributions from the member churches. Other financial impact could occur though such potential impact is unknown at this time.