

**NATIONAL CAPITAL PRESBYTERY AND
NATIONAL CAPITAL PRESBYTERY, INC.**

COMBINED FINANCIAL REPORT

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
National Capital Presbytery and
National Capital Presbytery, Inc.
Rockville, Maryland

We have audited the accompanying combined financial statements of National Capital Presbytery (a nonprofit organization) and National Capital Presbytery, Inc. (a nonprofit corporation) (the Organizations), which comprise the combined statements of financial position – modified cash basis as of December 31, 2017 and 2016 and the related combined statements of activities – modified cash basis and cash flows – modified cash basis for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with the modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of National Capital Presbytery and National Capital Presbytery, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the combined financial statements, which describes the basis of accounting. The combined financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other – Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The schedule of secondary and contingent liabilities on page 21 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
May 2, 2018

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.

Combined Statements of Financial Position - Modified Cash Basis

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,263,850	\$ 1,310,485
Investments	17,690,985	16,256,816
Ministry Crisis Fund loans receivable	65,768	78,472
Note receivable - Northminster church	161,500	187,000
Advances for Covenant loan payments and operational costs, net (Note 5)	-	431,020
PC USA Grants	14,300	14,300
Grant/Loan	20,000	20,000
Other assets	11,852	11,852
Land and equipment, net	26,341	26,341
TOTAL ASSETS	<u>\$ 19,254,596</u>	<u>\$ 18,336,286</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Funds held for congregations (Note 9)	\$ 9,617,088	\$ 9,836,031
Funds held for others	58,319	-
TOTAL LIABILITIES	<u>9,675,407</u>	<u>9,836,031</u>
Secondary and contingent liabilities (Note 10)		
NET ASSETS		
Unrestricted		
Operations	1,653,155	2,075,131
Designated	7,449,314	5,892,341
Net investment in fixed assets	26,341	26,341
Total unrestricted net assets	<u>9,128,810</u>	<u>7,993,813</u>
Temporarily restricted	385,734	441,797
Permanently restricted	64,645	64,645
TOTAL NET ASSETS	<u>9,579,189</u>	<u>8,500,255</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,254,596</u>	<u>\$ 18,336,286</u>

See Independent Auditor's Report and Notes to Combined Financial Statements.

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.

Combined Statements of Activities - Modified Cash Basis

For the Years Ended December 31, 2017 and 2016

	2017			Combined
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support				
Missions	\$ 145,157	\$ 33,224	\$ -	\$ 178,381
Benevolences - net of General Assembly and Synod payments of \$465,605 in 2017 and \$513,253 in 2016	450,764	-	-	450,764
Per capita - net of General Assembly and Synod payments of \$254,312 in 2017 and \$246,225 in 2016	870,438	-	-	870,438
Investment income (loss), net	657,689	7,370	-	665,059
Miscellaneous	1,546,904	-	-	1,546,904
Net assets released from restrictions:				
Satisfaction of restriction - program	96,657	(96,657)	-	-
Total revenues, gains and other support	<u>3,767,609</u>	<u>(56,063)</u>	<u>-</u>	<u>3,711,546</u>
Expenses and losses				
Program				
Mission				
Salaries, benefits, and payroll taxes	220,884	-	-	220,884
Church development	249,504	-	-	249,504
Uncollectible advance	546,962	-	-	546,962
Designated missions	128,857	-	-	128,857
Mission interpretation and coordination	251,410	-	-	251,410
Restricted missions	21,028	-	-	21,028
Congregation support	9,999	-	-	9,999
Resources/Council	39,807	-	-	39,807
	<u>1,468,451</u>	<u>-</u>	<u>-</u>	<u>1,468,451</u>
Management and general				
Salaries, benefits, and payroll taxes	702,365	-	-	702,365
Rent	154,395	-	-	154,395
Office	76,155	-	-	76,155
Presbytery operations	56,284	-	-	56,284
Designated operating	39,946	-	-	39,946
Professional fees	82,008	-	-	82,008
Preparation for Ministry/Committee on Ministry	24,761	-	-	24,761
Presbytery resources	1,479	-	-	1,479
Maintenance - properties	5,309	-	-	5,309
Miscellaneous	21,459	-	-	21,459
	<u>1,164,161</u>	<u>-</u>	<u>-</u>	<u>1,164,161</u>
Fundraising	-	-	-	-
Total expenses and losses	<u>2,632,612</u>	<u>-</u>	<u>-</u>	<u>2,632,612</u>
Change in net assets	1,134,997	(56,063)	-	1,078,934
Net assets, beginning of year	7,993,813	441,797	64,645	8,500,255
Net assets, end of year	<u>\$ 9,128,810</u>	<u>\$ 385,734</u>	<u>\$ 64,645</u>	<u>\$ 9,579,189</u>

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Combined
\$ 148,592	\$ 39,204	\$ -	\$ 187,796
481,212	-	-	481,212
874,142	-	-	874,142
474,690	8,050	-	482,740
45,062	-	-	45,062
35,441	(35,441)	-	-
<u>2,059,139</u>	<u>11,813</u>	<u>-</u>	<u>2,070,952</u>
222,367	-	-	222,367
228,263	-	-	228,263
-	-	-	-
113,569	-	-	113,569
197,509	-	-	197,509
53,283	-	-	53,283
9,901	-	-	9,901
25,684	-	-	25,684
<u>850,576</u>	<u>-</u>	<u>-</u>	<u>850,576</u>
705,716	-	-	705,716
144,006	-	-	144,006
98,024	-	-	98,024
31,947	-	-	31,947
33,442	-	-	33,442
74,355	-	-	74,355
14,037	-	-	14,037
5,282	-	-	5,282
5,686	-	-	5,686
-	-	-	-
<u>1,112,495</u>	<u>-</u>	<u>-</u>	<u>1,112,495</u>
-	-	-	-
<u>1,963,071</u>	<u>-</u>	<u>-</u>	<u>1,963,071</u>
96,068	11,813	-	107,881
7,897,745	429,984	64,645	8,392,374
<u>\$ 7,993,813</u>	<u>\$ 441,797</u>	<u>\$ 64,645</u>	<u>\$ 8,500,255</u>

See Independent Auditor's Report and Notes to Combined Financial Statements.

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.

Combined Statements of Cash Flows - Modified Cash Basis

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,078,934	\$ 107,881
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized (gain) loss on sale of investments	(41,656)	90,600
Unrealized gain on investments	(343,626)	(158,555)
Decrease in allowance for potentially uncollectible advances	-	(1,156,155)
Changes in assets and liabilities:		
Decrease (Increase) in:		
Mission program loans receivable	12,704	4,796
Advances for Covenant loan payments and operational costs, net	283,026	747,481
Notes receivable - church	25,500	23,375
Increase (decrease) in:		
Funds held for congregations (Note 9)	-	(147,963)
Funds held for others	58,319	-
Net cash provided by (used in) operating activities	<u>1,073,201</u>	<u>(488,540)</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	3,190,212	2,685,351
Proceeds from sale of church	147,994	-
Purchases of investments	<u>(4,458,042)</u>	<u>(2,258,440)</u>
Net cash (used in) provided by investing activities	<u>(1,119,836)</u>	<u>426,911</u>
Net decrease in cash	(46,635)	(61,629)
Cash, beginning of year	1,310,485	1,372,114
Cash, end of year	<u>\$ 1,263,850</u>	<u>\$ 1,310,485</u>
<u>Supplemental Data</u>		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report and Notes to Combined Financial Statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND PURPOSE

National Capital Presbytery (the Presbytery), an unincorporated ecclesiastical association, is an official judicatory of the Presbyterian Church (U.S.A.) [PC(U.S.A.)]. The Presbytery's main sources of revenue are contributions and per capita receipts from churches.

National Capital Presbytery, Inc. (the Corporation) was incorporated as a non-profit organization in the District of Columbia, principally to hold title to real property and other assets, to guarantee loans, and to engage in other financial matters at the instruction of the National Capital Presbytery. The Corporation's primary sources of revenue are interest and dividends on loans and investments.

All property of National Capital Presbytery and/or National Capital Presbytery, Inc. is held in trust for the use and benefit of the Presbyterian Church (USA). In the event of the dissolution of the Presbytery, ownership of all of its property conveys to the General Assembly of the Presbyterian Church (USA).

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting. Revenue and the related assets are generally recognized when received rather than when earned and expenses are generally recognized when paid rather than when the obligation is incurred. Transactions involving changes in the fair value of investments are recognized in the period in which they occur. However, the Presbytery and Corporation do record the following modifications to the cash basis of accounting:

- Cost of land and equipment is capitalized and equipment is depreciated.
- Investments are carried at fair market value.
- Funds advanced to employees and member churches are carried as assets until repaid.
- Loan payments advanced for churches are carried net of estimated allowance for potential uncollectible advances.
- Amounts received from sale of church properties when the congregation still exists are held as liabilities until repaid to the congregation or the congregation dissolves.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification. Under these recommendations, the Organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and consist of undesignated funds, which are resources available for the support of the Organizations' general operations, and funds or resources designated by the Organizations' Board of Directors for a particular use.

Temporarily restricted net assets – Net assets whose use has been limited by donors to a specific time period and/or purpose.

Permanently restricted net assets – The principal amounts of gifts which are required by donors to be permanently retained.

Investments

Investments consist of money market accounts, marketable securities, common and preferred stock, mutual funds, corporate bonds, exchange traded funds and alternative investments. At December 31, 2017 and 2016, the investments are recorded at fair value. Any change in market value, whether realized or unrealized, is recognized in the statement of activities in the period the change occurs. Investment expenses are net with investment income and losses.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingencies, if any, at the date of the financial statements and revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Presbytery and the Corporation consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The following summarizes the Organizations' cash, as of December 31, 2017, which is not federally insured or is in excess of federally insured limits, none of which is specifically collateralized:

Cash, in excess, in federally chartered bank:	<u>\$ 1,013,700</u>
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Functional Expenses

Expenses are charged directly to program, management and general, and fund-raising categories based on specific identification.

Revenue

The principal revenue of the Presbytery is assessment fees and benevolence giving from congregations, and contributions from agencies of the PC (U.S.A.). Grants and contributions restricted to a specific purpose by the donor are recorded as temporarily restricted until expended for that purpose. The principal revenue of the Corporation is interest and dividends and contributions.

Secondary and Contingent Liabilities

For secondary and contingent liabilities, the Corporation essentially serves as conduit or a guarantor between various borrowers and lenders. Borrowers are churches within the bounds of the National Capital Presbytery, and the Corporation guarantees and/or acts as a cosigner for these loans in keeping with its stated purpose.

Income Taxes

The Corporation is recognized by the Internal Revenue Service as a charitable and religious non-profit organization under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. Therefore, contributions to the Corporation are tax deductible under Section 170 of the Internal Revenue Code.

The Organizations follow the guidance of the Financial Accounting Standards Board Accounting Standards Codification 740-10, *Accounting for Uncertainty in Income Taxes* which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the financial statements.

The Organizations analyze tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax-exempt organization, activities performed by volunteers and board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland state statute. The Organizations do not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organizations' financial position or changes in net assets as a result of analyzing their tax positions. All years in the Organizations' history remain open to examination by federal and state authorities due to management of the Organizations deeming no information return needs to be filed as the Organizations are exempt due to their association with the PC(U.S.A.).

Subsequent Events

In preparing these financial statements, the Presbytery and Corporation have evaluated events and transactions for potential recognition or disclosure through May 2, 2018, the date that the financial statements were available to be issued.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ministry Crisis Fund Loans Receivable

Mission Program loans receivable consist of loans to ministers and their families through Ministry Crisis Fund programs. These are non-interest or low-interest bearing loans made to ministers and their families in financial difficulty. Loans range in amount from approximately \$4,000 to \$27,000 at December 31, 2017 and 2016. These loans bear interest of between 0% and 5%.

Fair Value of Financial Instruments

The Presbytery and the Corporation follow the recommendations of the Financial Accounting Standards Board's Accounting Standards Codification in measuring financial instruments at fair value. In addition to defining fair value, these recommendations establish a fair value hierarchy for ranking the quality and reliability of the information used to determine fair values. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Miscellaneous Revenue

Miscellaneous revenue consists of sale of church property from defunct congregations.

Note 3. INVESTMENTS

Assets measured at fair value on a recurring basis at December 31, 2017 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$ 1,156,698	\$ 1,156,698	\$ -	\$ -
Common stock	8,667,686	8,667,686	-	-
Exchange traded funds	648,210	648,210	-	-
Corporate bonds	4,427,662	-	4,427,662	-
Alternative investments (hedge funds)	357,069	-	-	357,069
Real estate investment trusts	957,171	957,171	-	-
Preferred securities	1,476,489	-	1,476,489	-
	<u>\$ 17,690,985</u>	<u>\$ 11,429,765</u>	<u>\$ 5,904,151</u>	<u>\$ 357,069</u>

Assets measured at fair value on a recurring basis at December 31, 2016 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$ 3,810,438	\$ 3,810,438	\$ -	\$ -
Common stock	5,545,344	5,545,344	-	-
Exchange traded funds	506,480	506,480	-	-
Corporate bonds	3,337,966	-	3,337,966	-
Alternative investments (hedge funds)	481,191	-	-	481,191
Real estate investment trusts	661,988	661,988	-	-
Preferred securities	1,913,409	-	1,913,409	-
	<u>\$ 16,256,816</u>	<u>\$ 10,524,250</u>	<u>\$ 5,251,375</u>	<u>\$ 481,191</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 3. INVESTMENTS (continued)

Level 2 investments have unobservable inputs. Level 3 investments are based on unobservable inputs and are not readily marketable. Hedge funds include investment partnerships.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organizations' investments in non-derivative hedge funds with an objective to obtain a greater return on investment than non-hedge funds. Management is in the process of liquidating these investments. The following table presents a reconciliation of the activity of these funds:

Balance, December 31, 2015	\$ 670,490
Net 2016 withdrawals	(189,327)
Net 2016 realized/unrealized gain	28
Balance, December 31, 2016	\$ 481,191
Net 2017 withdrawals	(99,137)
Net 2017 realized/unrealized loss	(24,985)
Balance, December 31, 2017	\$ 357,069

Net investment income for the years ended December 31, are as follows:

	2017	2016
Interest and dividend income, net of fees of \$61,915 and \$86,644, respectively	\$ 279,777	\$ 266,824
Realized gain (loss) on investments	41,656	(90,600)
Unrealized gain on investments	343,626	306,516
	\$ 665,059	\$ 482,740

Note 4. NOTE RECEIVABLE – CHURCH

During 2014, the Corporation entered into a note receivable with Northminster Presbyterian Church. The original balance of the note was \$255,000 and matures May 1, 2024. This is a noninterest bearing note. However, if the note is not repaid by the maturity date, the interest rate will be reevaluated by the NCP Leadership Council. The balance of this note receivable was \$161,500 and \$187,000 at December 31, 2017 and 2016, respectively. Management believes the full amount is collectible, thus no allowance for potentially uncollectible note receivable has been recorded.

Note 5. ADVANCES FOR COVENANT LOAN PAYMENTS AND OPERATIONAL COSTS

At December 31, the Corporation had advanced loan payments on behalf of churches in cumulative amounts as follows:

<u>Church</u>	Balance of Payments Advanced	
	2017	2016
Covenant Manassas	\$ -	\$ 431,020
Allowance for potential uncollectible advances	-	-
	\$ -	\$ 431,020

During the year ended December 31, 2016, management estimated the full amount of the payments advanced would be received when the building sold, thus no allowance for potential uncollectible advances was recorded.

The Corporation was assisting Covenant Manassas Presbyterian Church in making its loan payments under two loans in which the Corporation was a guarantor. The total monthly loan payment was approximately \$33,000 and the Corporation was paying monthly approximately half of that payment on behalf of the church through November 30, 2015. After November 30, 2015, the Corporation was making the full debt service payments, as well as building operating expenses, and expected to be fully reimbursed for these payments when the property sold. The Corporation advanced approximately \$260,000 in 2017 until the property was sold in late 2017.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 5. **ADVANCES FOR COVENANT LOAN PAYMENTS AND OPERATIONAL COSTS (continued)**

In February 2017, Covenant Manassas Presbyterian Church entered into an agreement with the bank to modify the terms of their loans. The agreement required the Church to immediately pay the outstanding interest on the loans as of February 1, 2017 and monthly interest-only payments of approximately \$21,000 until June 1, 2017, when the principal amount of the loans was due. When the property was sold in November 2017, the loans were repaid and \$546,962 was recorded as Uncollectible Advance expense in 2017.

Note 6. **LAND AND EQUIPMENT**

Land and equipment are recorded at cost. The Organizations capitalize fixed asset costs for items greater than \$5,000. Repairs and maintenance, which do not extend the useful life of an asset, are recorded as an expense in the year incurred. Depreciation is provided on the straight-line method over the estimated useful life of the assets. The Organizations use an estimated useful life of 3-10 years for vehicles and equipment.

The Corporation holds title to the land and buildings of approximately one-third of the Presbyterian Churches within the bounds of the Presbytery. Under the provisions of the constitution of the Presbyterian Church (U.S.A.), the Corporation retains control of all PC(U.S.A.) church properties within the bounds of the Presbytery in the event of a church failure. The Presbytery receives revenue upon the sale of any such property. The value of the properties for which title is held is not reflected in the financial statements, since a congregation is expected to reimburse the Corporation for the costs of acquiring its church property. Thus, the Corporation's cost of purchasing land and buildings is shown as advances or receivables until full reimbursement has been received from the congregation.

At December 31, land and equipment were comprised of the following:

	<u>2017</u>	<u>2016</u>
Land – Oxon Hill, MD	\$ 26,341	\$ 26,341
Equipment	9,324	9,324
	35,665	35,665
Accumulated depreciation	<u>(9,324)</u>	<u>(9,324)</u>
	<u>\$ 26,341</u>	<u>\$ 26,341</u>

Total depreciation expense for the years ended December 31, 2017 and 2016 was \$0 and \$0, respectively. The land is comprised of an undeveloped lot adjacent to Southminster Presbyterian Church in Oxon Hill, MD.

Note 7. **CEMETERY LAND**

From time to time, the Corporation receives contributions of cemetery plots. Twenty-two cemetery plots were held at December 31, 2017 and 2016. The plots were located in various locations in Virginia and Maryland, and the Corporation will donate a plot to an individual at the request of a church. The plots have minimal value and are not reflected as assets on the statement of financial position.

Note 8. **TITLE OF MEMBER CHURCHES HELD BY CORPORATION**

The Presbytery owns the land leased on a long-term basis to Chesterbrook Residences in Falls Church, Virginia. The Presbytery has also assumed ownership of the church property on Wilson Lane in Bethesda, Maryland, upon the dissolution of Trinity Church. This property is not used in the Presbytery's or Corporation's operation and was sold in 2017 for \$1,250,000 to provide financial resources for the Presbytery's programs and ministries.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 9. FUNDS HELD FOR CONGREGATIONS

The net proceeds from the sale of Riverdale Presbyterian Church in University Park, Maryland and Arlington Presbyterian Church in Arlington, Virginia are held in custodial funds for the benefit of the congregations under a policy approved by the Presbytery. These funds of approximately \$9.6 million and \$9.8 million in 2017 and 2016, respectively, are reflected in Investments assets and Funds Held for Congregations and represent all gains and losses activities related to these investments. Any withdrawal from the custodian fund (1) must be initiated and approved by the congregation's Session and (2) must receive the concurrence of the Presbytery Leadership Council.

Note 10. SECONDARY AND CONTINGENT LIABILITIES

At December 31, 2017 and 2016 the Corporation was secondarily or contingently liable for \$12,278,170 and \$17,422,226, respectively, in connection with grants and loans, which it has guaranteed or endorsed. For each of these obligations, repayment is primarily the responsibility of the borrower. Following is a summary of these obligations at December 31,:

	2017	2016
PC(U.S.A.) loans	\$ 3,825,463	\$ 3,540,750
PC(U.S.A.) grants	14,300	14,300
Grant loan – United Church of Christ	20,000	20,000
Commercial loans	8,418,407	13,847,176
	\$ 12,278,170	\$ 17,422,226

PC(U.S.A.) loans represent loans made to churches by the General Assembly. The churches bear responsibility for loan repayment. These loans bear interest from 3.50% to 3.95% with varying repayment terms.

PC(U.S.A.) grants represent monies given to churches by the General Assembly. Repayment of grants is only required if a church is abandoned or dissolved or ceases to be a member of the denomination. Acknowledgement of the grants is requested from the churches annually.

Grant loan from United Church of Christ represents a loan to United Parish of Bowie, which is guaranteed by the Corporation. This loan bears no interest as long as the terms of the promissory note are met. Otherwise, the interest rate becomes 7%.

Commercial loans are loans to churches from commercial banks and mortgage companies which are guaranteed by the Corporation. These loans bear interest from 3.80% to 6.375% and are due at various times through 2024.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11. DESIGNATION OF UNRESTRICTED NET ASSETS

Management of the Organizations has designated amounts of unrestricted net assets, which are set aside for particular programs. The balances are as follows:

	Designated Assets 12/31/2016	Additions	Uses	Designated Assets 12/31/2017
<u>Mission Programs</u>				
Resource				
Educator's Group	\$ 1,614	\$ -	\$ -	\$ 1,614
Source	1	-	1	-
	<u>1,615</u>	<u>-</u>	<u>1</u>	<u>1,614</u>
Presbytery Resource and Council				
Youth Triennium	289	-	222	67
NCP Youth Scholarship	3,500	-	-	3,500
	<u>3,789</u>	<u>-</u>	<u>222</u>	<u>3,567</u>
Young Adult Volunteer				
Young Adult Volunteer	80,556	96,129	106,958	69,727
Mission Reserve				
	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total Mission Programs	<u>235,960</u>	<u>96,129</u>	<u>107,181</u>	<u>224,908</u>
<u>Operations</u>				
Office				
Pass Through account	22,599	29,874	22,410	30,063
NCP Sponsored events	4,007	-	-	4,007
GP Contingency Fund	613	300	-	913
Calm to the Waves	-	18,170	15,520	2,650
Stated Clerk Discretionary Fund	4	-	4	-
	<u>27,223</u>	<u>48,344</u>	<u>37,934</u>	<u>37,633</u>
COM & CPM				
Ordination – CPM Scholarships	3,755	3,075	412	6,418
Colleague Groups	2,517	1,800	1,600	2,717
Pre-Retirement Seminar	19	-	-	19
	<u>6,291</u>	<u>4,875</u>	<u>2,012</u>	<u>9,154</u>
Total Operations	<u>33,514</u>	<u>53,219</u>	<u>39,946</u>	<u>46,787</u>
<u>Investments</u>				
	<u>5,622,867</u>	<u>1,812,007</u>	<u>257,255</u>	<u>7,177,619</u>
Total designated unrestricted net assets	<u>\$ 5,892,341</u>	<u>\$ 1,961,355</u>	<u>\$ 404,382</u>	<u>\$ 7,449,314</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11. DESIGNATION OF UNRESTRICTED NET ASSETS (continued)

	Designated Assets <u>12/31/2015</u>	<u>Additions</u>	<u>Uses</u>	Designated Assets <u>12/31/2016</u>
<u>Mission Programs</u>				
Resource				
Educator's Group	\$ 1,344	\$ 270	\$ -	\$ 1,614
Source	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
	<u>1,345</u>	<u>270</u>	<u>-</u>	<u>1,615</u>
Presbytery Resource and Council				
Youth Triennium	519	-	230	289
NCP Youth Scholarship	<u>2,500</u>	<u>1,000</u>	<u>-</u>	<u>3,500</u>
	<u>3,019</u>	<u>1,000</u>	<u>230</u>	<u>3,789</u>
Young Adult Volunteer				
Young Adult Volunteer	97,942	94,906	112,292	80,556
Mission Reserve	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total Mission Programs	<u>252,306</u>	<u>96,176</u>	<u>112,522</u>	<u>235,960</u>
<u>Operations</u>				
Office				
Pass Through account	6,951	27,417	11,769	22,599
NCP Sponsored events	4,907	16,723	17,623	4,007
GP Contingency Fund	1,213	550	1,150	613
Stated Clerk Discretionary Fund	<u>4</u>	<u>-</u>	<u>-</u>	<u>4</u>
	<u>13,075</u>	<u>44,960</u>	<u>30,542</u>	<u>27,223</u>
COM & CPM				
Ordination – CPM Scholarships	79	3,676	-	3,755
Colleague Groups	2,917	2,000	2,400	2,517
Pre-Retirement Seminar	<u>19</u>	<u>-</u>	<u>-</u>	<u>19</u>
	<u>3,015</u>	<u>5,676</u>	<u>2,400</u>	<u>6,291</u>
Total Operations	<u>16,090</u>	<u>50,336</u>	<u>32,942</u>	<u>33,514</u>
<u>Investments</u>	<u>5,694,181</u>	<u>307,250</u>	<u>378,564</u>	<u>5,622,867</u>
Total designated unrestricted net assets	<u>\$ 5,962,577</u>	<u>\$ 453,792</u>	<u>\$ 524,028</u>	<u>\$ 5,892,341</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12. DESCRIPTION OF TEMPORARILY RESTRICTED NET ASSETS

To ensure observance of limitations and restrictions placed on the use of resources available to the Organizations, temporarily restricted funds of the Organizations are accounted for as follows:

Temporarily restricted funds include two types of funds: (1) donations given to the Presbytery for a specified purpose, for which principal is to be spent (i.e. are not to be managed as endowments), and (2) income funds that hold the dividends, interest and capital gains earned from permanently restricted endowment funds. The annual spending amount for each endowment is taken out of that endowment's income fund.

- **Emma P. Grandin Memorial Fund.** This is a revolving loan fund established to provide short-term capital loans up to \$20,000 to congregations for a period of up to three years.
- **Ministry Crisis Fund.** The Ministry Crisis Fund is a longstanding financial resource which provides emergency assistance to ministers and/or their families when other resources are not sufficient. The fund is operated by Committee on Ministry. Income is primarily from the offering taken at all installation services. Assistance is provided in the form of grants or loans; where a loan is provided, ordinarily a promissory note is required.
- **Commission on Preparation for Ministry Scholarship Fund.** Monies in this fund have been given by individuals and churches for seminary scholarships by direct giving and by the offering taken at ordination services.
- **John R. Bovard Memorial Scholarship Endowment Fund.** The income earned is used to assist students under care as Inquirers or Candidates in preparing for a church vocation.
- **Garden Endowment Fund.** This fund was established to help deserving and less fortunate people start gardens for their own table and canning use and to provide financial assistance to other religious and charitable organizations in starting similar endowment funds.
- **Robert and Marie Moravetz Memorial Endowment Fund.** This fund established to support NCP programs in creative and experimental ministries. The income from this fund is included in Church Development revenue below.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12. DESCRIPTION OF TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets, and the purposes for which they are restricted, are as follows:

	Temporarily Restricted Net Assets 12/31/2016	Revenues, Losses and Contributions	Released from Restrictions	Temporarily Restricted Net Assets 12/31/2017
<u>Mission Programs</u>				
Church Development				
Church Development	\$ 45,996	\$ 3,177	\$ -	\$ 49,173
GA – NCP Grants	2,771	-	2,771	-
Partners for Sacred Places	4,320	-	4,320	-
Urbana Ministries Project	736	-	736	-
Well Grant [PC(U.S.A.)]	48,310	955	18,906	30,359
	<u>102,133</u>	<u>4,132</u>	<u>26,733</u>	<u>79,532</u>
Resource				
Faith and Sexuality Education	346	-	346	-
	<u>346</u>	<u>-</u>	<u>346</u>	<u>-</u>
MCC				
Cents Ability	8,326	644	-	8,970
Peacemaking Committee	22,529	1,982	955	23,556
Disaster Assistance	6,000	18,857	9,930	14,927
Earth Care Enabler	353	-	353	-
Mission Bequest	48,550	-	48,550	-
	<u>85,758</u>	<u>21,483</u>	<u>59,788</u>	<u>47,453</u>
Presbytery Resource and Council				
Pentecost Offerings	5,354	-	-	5,354
Anti Racism Projects	3,574	-	-	3,574
	<u>8,928</u>	<u>-</u>	<u>-</u>	<u>8,928</u>
Total Mission Programs	<u>197,165</u>	<u>25,615</u>	<u>86,867</u>	<u>135,913</u>
<u>Operations</u>				
COM and CPM				
Ministry Crisis Fund	133,270	7,609	9,790	131,089
Other Operating Funds				
Grandin Endowment Fund	104,292	5,202	-	109,494
Toland Scholarship Fund	1,337	1,017	-	2,354
Bovard Scholarship Fund	803	87	-	890
Garden Endowment Fund	4,930	1,064	-	5,994
	<u>111,362</u>	<u>7,370</u>	<u>-</u>	<u>118,732</u>
Total Operations	<u>244,632</u>	<u>14,979</u>	<u>9,790</u>	<u>249,821</u>
Total temporarily restricted net assets	<u>\$ 441,797</u>	<u>\$ 40,594</u>	<u>\$ 96,657</u>	<u>\$ 385,734</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12. DESCRIPTION OF TEMPORARILY RESTRICTED NET ASSETS (continued)

	Temporarily Restricted Net Assets 12/31/2015	Revenues, Losses and Contributions	Released from Restrictions	Temporarily Restricted Net Assets 12/31/2016
<u>Mission Programs</u>				
Church Development				
Church Development	\$ 44,982	\$ 12,327	\$ 11,313	\$ 45,996
GA – NCP Grants	2,771	-	-	2,771
Partners for Sacred Places	4,320	-	-	4,320
Urbana Ministries Project	-	736	-	736
Well Grant [PC(U.S.A)]	34,308	15,049	1,047	48,310
	<u>86,381</u>	<u>28,112</u>	<u>12,360</u>	<u>102,133</u>
Resource				
Faith and Sexuality Education	346	-	-	346
	<u>346</u>	<u>-</u>	<u>-</u>	<u>346</u>
MCC				
Cents Ability	7,636	690	-	8,326
Peacemaking Committee	21,390	1,589	450	22,529
Disaster Assistance	6,000	-	-	6,000
Earth Care Enabler	353	-	-	353
Mission Bequest	48,550	-	-	48,550
	<u>83,929</u>	<u>2,279</u>	<u>450</u>	<u>85,758</u>
Presbytery Resource and Council				
Pentecost Offerings	5,354	-	-	5,354
Anti Racism Projects	3,574	-	-	3,574
	<u>8,928</u>	<u>-</u>	<u>-</u>	<u>8,928</u>
Total Mission Programs	<u>179,584</u>	<u>30,391</u>	<u>12,810</u>	<u>197,165</u>
<u>Operations</u>				
COM and CPM				
Ministry Crisis Fund	140,977	8,813	16,520	133,270
Other Operating Funds				
Grandin Endowment Fund	97,579	6,713	-	104,292
Toland Scholarship Fund	1,782	555	1,000	1,337
Bovard Scholarship Fund	4,620	183	4,000	803
Garden Endowment Fund	5,442	599	1,111	4,930
	<u>109,423</u>	<u>8,050</u>	<u>6,111</u>	<u>111,362</u>
Total Operations	<u>250,400</u>	<u>16,863</u>	<u>22,631</u>	<u>244,632</u>
Total temporarily restricted net assets	<u>\$ 429,984</u>	<u>\$ 47,254</u>	<u>\$ 35,441</u>	<u>\$ 441,797</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 13. LEASES

During 2017, the Organizations leased a new copier which is treated as an operating lease. The future lease payments are included below combined with the office space lease payments.

The lease term for the Organizations' office space is for a period of ten years and six months. Payments of \$9,477 are due each month for the first year, and will increase by 3% each year on the lease anniversary date. The lease contains one option to renew for an additional five years. Total rent expense for 2017 and 2016 was \$167,594 and \$156,901, respectively.

As of December 31, 2017, future required lease payments are:

2018	\$ 155,677
2019	\$ 160,063
2020	\$ 9,452
2021	\$ 9,452
2022	\$ 4,726

Note 14. RETIREMENT BENEFITS

The Organizations provide retirement benefits for their staff under contributory defined contribution plans administered by the Board of Pensions of the Presbyterian Church (U.S.A.). All eligible employees of the Presbytery and Corporation are entitled to benefits under at least one of these plans. Annual costs are funded by contributions to the respective plans. The total cost under these plans for 2017 and 2016 was \$50,297 and \$52,684, respectively.

Note 15. PERMANENTLY RESTRICTED ENDOWMENT FUNDS

Permanently restricted funds include all funds gifted to the Presbytery by a donor for a specific purpose or a general purpose, with the stipulation that the principal not be spent, i.e. that the fund be managed as a perpetual endowment. Only the original principal value of each endowment fund is recorded under permanently restricted net assets; dividends, interest and capital gains (together, "total return"), are recorded under temporarily restricted net assets.

- **George W. Toland Scholarship Endowment Fund.** This fund is used to assist in the education of a young person studying at a Presbyterian college or presbytery-approved seminary to become a minister.
- **General Scholarship Endowment Fund.** The income from this fund is used to provide scholarships to candidates and inquirers of National Capital Presbytery.

At December 31, permanently restricted net assets were comprised of the following:

	2017	2016
Toland Scholarship Fund	\$ 8,000	\$ 8,000
General Scholarship Fund	56,645	56,645
	\$ 64,645	\$ 64,645

The John R. Bovard, Garden, and Robert and Marie Moravetz endowment funds are not reflected under permanently restricted endowment funds because the principal is invested with and managed by PC(USA).

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 15. ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law

The Organizations classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

In accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the organization and the donor-restricted endowment fund
- 3) General endowment conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organizations
- 7) The investment policies of the Organizations.

From time to time, the fair value of assets associate with individual donor-restricted endowment funds may fall below the level that current law or donors require the Organizations to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies may result from unfavorable market fluctuations. There was no such deficiency at December 31, 2017 or 2016.

Investment Policies

The basic investment objective is to achieve a total return that will provide sufficient assets to support the missions and purposes of the Organizations. The portfolio will use a combination of asset allocation strategy and security selection to seek to achieve a real return (total return less an inflation factor such as the Consumer Price Index) of at least 4%. Only the following types of investments are allowable within the listed percentage ranges:

<u>Asset Class</u>	<u>Percentage Range</u>
• <u>Equity Securities</u> including U.S. and non-U.S. common stocks, depository receipts (including American, European and Global Depository receipts), U.S. dollar denominated foreign securities, open and closed end country funds, and convertible preferred stocks.	30-60%
• <u>Fixed Income Securities</u> including investments in treasuries, investment grade corporate securities (rated, at the time of purchase, the equivalent of BBB+ or higher by any two of Standard & Poor's, Moody's or Fitch), asset-backed and mortgage-backed securities with the guarantee of the U.S. government, and preferred stock.	30-60%
• <u>Cash and Cash Equivalents</u> including short-term money market funds or money market instruments that would mature in not more than one year, including direct or indirect obligations of the U.S. government, negotiable Certificates of Deposit, in those banks with investment grade credit ratings, and commercial paper with ratings from at least two credit rating agencies, of A-1 by Standard & Poor's, P-1 by Moody's or F-1 by Fitch.	5-30%

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 15. **ENDOWMENT FUNDS (continued)**

Policy for appropriation of endowment expenditures

Each year, the income from the endowment funds is used for its intended purpose.

Endowment net asset composition by Type of Fund as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,065	\$ 64,645	\$ 74,710
Total funds	<u>\$ -</u>	<u>\$ 10,065</u>	<u>\$ 64,645</u>	<u>\$ 74,710</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,500	\$ 64,645	\$ 66,145
Investment return				
Net appreciation	-	8,565	-	8,565
Total investment return	-	8,565	-	8,565
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 10,065</u>	<u>\$ 64,645</u>	<u>\$ 74,710</u>

Endowment net asset composition by Type of Fund as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,500	\$ 64,645	\$ 66,145
Total funds	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 64,645</u>	<u>\$ 66,145</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (3,007)	\$ 1,782	\$ 64,645	\$ 63,420
Investment return				
Net appreciation (depreciation)	3,007	(282)	-	2,725
Total investment return	3,007	(282)	-	2,725
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 64,645</u>	<u>\$ 66,145</u>

SUPPLEMENTARY INFORMATION

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.
Schedule of Secondary and Contingent Liabilities
December 31, 2017

Borrower	Lender	Interest Rate	Maturity Date	Balance
PC(U.S.A.) LOANS				
Wheaton Community Church of the Redeemer	PC(U.S.A.)	3.890%	1/1/2021	\$ 258,843
Faith Presbyterian Church	PC(U.S.A.)	3.770%	7/1/2026	383,962
Gaithersburg	PC(U.S.A.)	3.500%	3/25/2025	105,473
Southminster	PC(U.S.A.)	3.500%	7/25/2026	88,497
Takoma Park	PC(U.S.A.)	3.770%	1/1/2027	402,975
Neelsville	PC(U.S.A.)	3.500%	9/25/2022	77,925
John Calvin	PC(U.S.A.)	3.675%	7/1/2034	382,623
1st Pres. Church of Annandale	PC(U.S.A.)	3.500%	5/25/2034	392,124
Church of the Pilgrims	PC(U.S.A.)	3.500%	4/25/2030	136,729
Chevy Chase Presbyterian Church	PC(U.S.A.)	3.950%	6/1/2038	1,050,000
Riverside Presbyterian Church	PC(U.S.A.)	3.500%	2/25/2037	105,473
				440,839
				<u>3,825,463</u>
PC(U.S.A.) GRANTS				
Knox	PC(U.S.A.)	0.000%	No maturity date	4,300
Silver Spring	PC(U.S.A.)	0.000%	No maturity date	10,000
				<u>14,300</u>
GRANT LOAN-UNITED CHURCH OF CHRIST				
United Parish of Bowie	United Church of Christ	7.000%	3/1/2082	<u>20,000</u>
COMMERCIAL LOANS				
Christ	First Virginia Comm. Bank	4.125%	10/1/2023	427,221
Clifton Church	Main Street Bank	4.500%	3/14/2024	940,727
Ebenezer	First Citizens Bank	4.000%	3/25/2021	1,549,042
Fairfax	Branch Banking & Trust	6.375%	3/1/2023	186,101
Good Samaritan	County First Bank	4.950%	9/3/2021	294,844
New Hope	PNC Bank	5.750%	10/29/2018	310,684
Kirkwood	Cardinal Bank	3.800%	3/5/2024	996,124
Korean of Rockville	SunTrust Bank	4.230%	3/3/2018	654,854
Providence Presbyterian Church	First Citizens Bank	3.800%	10/1/2023	1,266,680
St. Andrew Presbyterian Church	Bank of Clarke County	4.950%	6/26/2023	1,792,130
				<u>8,418,407</u>
TOTAL SECONDARY AND CONTINGENT LIABILITIES				<u><u>\$ 12,278,170</u></u>

Note: During 2017, the Corporation guaranteed additional PC(U.S.A.) church loans up to \$50,000 that had not been disbursed as of December 31, 2017.