

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

COMBINED FINANCIAL REPORT

DECEMBER 31, 2018

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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 statement of financial position – modified cash basis as of December 31, 2018 and the related combined statements of activities – modified cash basis and cash flows – modified cash basis for the year 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 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 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, 2018, and the changes in its net assets and its cash flows for the year 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 audit was 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 17 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, 2019

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.

Combined Statement of Financial Position - Modified Cash Basis

December 31, 2018

ASSETS

Cash and cash equivalents	\$ 2,350,916
Investments	15,907,257
Ministry Crisis Fund loans receivable	58,768
Notes receivable - churches	188,383
PC USA Grants	14,300
Grant/Loan	20,000
Other assets	11,852
Land	26,341
TOTAL ASSETS	\$ 18,577,817

LIABILITIES AND NET ASSETS

LIABILITIES	
Funds held for congregations (Note 9)	\$ 8,476,044
Funds held for others	46,175
TOTAL LIABILITIES	8,522,219
Secondary and contingent liabilities (Note 10)	
NET ASSETS	
Without donor restrictions:	
Operations	3,182,081
Designated	6,426,652
Net investment in fixed assets	26,341
Total net assets without donor restrictions	9,635,074
With donor restrictions	420,524
TOTAL NET ASSETS	10,055,598
TOTAL LIABILITIES AND NET ASSETS	\$ 18,577,817

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

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.

Combined Statement of Activities - Modified Cash Basis

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Per capita - net of General Assembly and Synod payments of \$255,804	\$ 834,102	\$ -	\$ 834,102
Per capita - prior years	48,841	-	48,841
Unified giving - net of General Assembly and Presbytery Leader Formation payments of \$92,468	457,334	-	457,334
Other contributions, net of General Assembly and Synod payments of \$338,414	163,396	44,780	208,176
Investment loss, net	(375,202)	(14,879)	(390,081)
Disaffiliation funds - Centreville	833,272	-	833,272
Disaffiliation funds - Neelsville	949,027	-	949,027
Miscellaneous	42,246	-	42,246
Net assets released from restrictions:			
Satisfaction of restriction - program	59,756	(59,756)	-
Total revenues, gains and other support	3,012,772	(29,855)	2,982,917
Expenses and losses			
Program - Mission			
Salaries, benefits, and payroll taxes	208,758	-	208,758
Church development	348,031	-	348,031
Designated missions	127,142	-	127,142
Mission interpretation and coordination	237,521	-	237,521
Restricted missions	54,880	-	54,880
Congregation support	3,566	-	3,566
Resources/Council	52,354	-	52,354
Centreville Mission Agreement	320,000	-	320,000
	1,352,252	-	1,352,252
Management and general			
Salaries, benefits, and payroll taxes	697,328	-	697,328
Rent	151,234	-	151,234
Office	103,580	-	103,580
Presbytery operations	51,575	-	51,575
Designated operating	56,648	-	56,648
Professional fees	29,926	-	29,926
Preparation for Ministry/Committee on Ministry	30,254	-	30,254
Presbytery resources	2,173	-	2,173
Maintenance - properties	17,000	-	17,000
	1,139,718	-	1,139,718
Fundraising	14,538	-	14,538
Total expenses and losses	2,506,508	-	2,506,508
Change in net assets	506,264	(29,855)	476,409
Net assets, beginning of year	9,128,810	450,379	9,579,189
Net assets, end of year	\$ 9,635,074	\$ 420,524	\$ 10,055,598

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

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.

Combined Statement of Cash Flows - Modified Cash Basis

For the Year Ended December 31, 2018

Cash Flows From Operating Activities

Change in net assets	\$	476,409
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized loss on sale of investments		95,073
Unrealized loss on investments		655,483
Changes in assets and liabilities:		
Decrease (Increase) in:		
Mission program loans receivable		7,000
Notes receivable - churches		(26,883)
Increase (decrease) in:		
Funds held for others		(12,144)
Net cash provided by operating activities		<u>1,194,938</u>

Cash Flows From Investing Activities

Proceeds from sale of investments		4,521,037
Purchases of investments		(4,628,909)
Net cash used in investing activities		<u>(107,872)</u>
Net increase in cash		1,087,066
Cash, beginning of year		1,263,850
Cash, end of year	\$	<u><u>2,350,916</u></u>

Supplemental Data

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

For the year ended December 31, 2018, the Organizations adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 — *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

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 organizations. These net assets may be used at the discretion of the Organizations' management and Board of Directors.

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 Organizations or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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 statement of activities.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, 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.

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, 2018, 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: \$ 2,100,766

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Such allocations are determined by management on an equitable basis and most expense categories are recorded directly, without significant allocation.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, benefits, and payroll taxes	Time and effort

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 net assets with donor restrictions until expended for that purpose. The principal revenue of the Corporation is interest and dividends and contributions.

Miscellaneous Revenue

Miscellaneous revenue consists of disaffiliation fees from congregations.

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 Organizations are exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organizations have processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organizations have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

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, 2018. These loans bear interest of between 0% and 5%.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Church groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Other observable inputs, either directly or indirectly, including:
 - Quoted prices for similar assets/liabilities in active markets;
 - Quoted prices for identical or similar assets in non-active markets;
 - Inputs other than quoted prices that are observable for the asset/liability; and,
 - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Subsequent Events

In preparing these financial statements, the Presbytery and Corporation have evaluated events and transactions for potential recognition or disclosure through May 2, 2019, the date that the financial statements were available to be issued.

Note 3. **AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS**

The following reflects the Organizations' financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statement of financial position date have not been subtracted as unavailable.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 3. AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS (continued)

Financial assets at year end:	
Cash and cash equivalents	\$ 2,350,916
Investments	<u>15,907,257</u>
Total financial assets at year end:	18,258,173
Less amounts not available to be used within one year:	
Contractual or donor-imposed restrictions:	
Funds held for congregations	(8,476,044)
Funds held for others	(46,175)
Investments held in perpetuity - endowment	(64,645)
Restricted by donor with time or purpose restrictions	(355,879)
Board Designations:	
Quasi-endowment fund, primarily for long-term investing	<u>(6,426,652)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 2,888,778</u>

The Organizations' goal is generally to maintain financial assets to meet one year of operating expenses (approximately \$2.5 million). In addition to financial assets available to meet general expenditures over the next 12 months, the Organizations operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 4. INVESTMENTS

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statement of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Interest and dividends are recorded when earned.

Assets measured at fair value on a recurring basis at December 31, 2018 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$ 692,502	\$ 692,502	\$ -	\$ -
Common stock	6,636,750	6,636,750	-	-
Exchange traded funds	567,635	567,635	-	-
Corporate bonds	6,052,710	-	6,052,710	-
Alternative investments (hedge funds)	248,924	-	-	248,924
Real estate investment trusts	454,119	454,119	-	-
Preferred securities	1,254,617	-	1,254,617	-
	<u>\$ 15,907,257</u>	<u>\$ 8,351,006</u>	<u>\$ 7,307,327</u>	<u>\$ 248,924</u>

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organizations' investments in non-derivative hedge funds, which include investment partnerships, 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, 2017	\$ 357,069
Net 2018 withdrawals	(102,777)
Net 2018 realized/unrealized loss	<u>(5,368)</u>
Balance, December 31, 2018	<u>\$ 248,924</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4. INVESTMENTS (continued)

Net investment income (loss) for the year ended December 31, 2018 is as follows:

Interest and dividend income, net of fees of \$60,134	\$ 360,475
Realized loss on investments	(95,073)
Unrealized loss on investments	(655,483)
	<u>\$ (390,081)</u>

Note 5. NOTES RECEIVABLE – CHURCHES

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 \$136,000 at December 31, 2018. Management believes the full amount is collectible, thus no allowance for potentially uncollectible note receivable has been recorded.

During 2018, the Corporation entered into a note receivable with Garden Memorial Presbyterian Church. The original balance of the note was \$55,328 and matures in April 2032. 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 \$52,383 at December 31, 2018. Management believes the full amount is collectible, thus no allowance for potentially uncollectible note receivable has been recorded.

Note 6. LAND

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, 2018 land was comprised of the following:

Land – Oxon Hill, MD	<u>\$ 26,341</u>
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There was no depreciation expense for the year ended December 31, 2018. The land is comprised of an undeveloped lot adjacent to Southminster Presbyterian Church is 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, 2018. 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.

NOTES TO COMBINED FINANCIAL STATEMENTS

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.

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 \$8.5 million at December 31, 2018 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, 2018 the Corporation was secondarily or contingently liable for \$10,155,129 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, 2018:

PC(U.S.A.) loans	\$ 3,349,835
PC(U.S.A.) grants	14,300
Grant loan – United Church of Christ	20,000
Commercial loans	<u>6,770,994</u>
	<u>\$ 10,155,129</u>

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 4.50% 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 5.50% and are due at various times through 2028.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11. DESIGNATION OF NET ASSETS WITHOUT DONOR RESTRICTIONS

Management of the Organizations has designated amounts of net assets without donor restrictions, which are set aside for particular programs. The balances are as follows:

	Designated Assets 12/31/2017	Additions	Uses	Designated Assets 12/31/2018
<u>Mission Programs</u>				
Resource				
Educator's Group	\$ 1,614	\$ -	\$ -	\$ 1,614
	<u>1,614</u>	<u>-</u>	<u>-</u>	<u>1,614</u>
Presbytery Resource and Council				
Youth Triennium	67	-	-	67
NCP Youth Scholarship	3,500	-	-	3,500
	<u>3,567</u>	<u>-</u>	<u>-</u>	<u>3,567</u>
Young Adult Volunteer				
Young Adult Volunteer	69,727	121,581	122,755	68,553
Mission Reserve	150,000	-	-	150,000
	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total Mission Programs	<u>224,908</u>	<u>121,581</u>	<u>122,755</u>	<u>223,734</u>
<u>Operations</u>				
Office				
Pass Through account	30,063	14,986	29,186	15,863
NCP Sponsored events	4,007	3,233	4,784	2,456
GP Contingency Fund	913	759	1,672	-
Calm to the Waves	2,650	19,146	19,146	2,650
	<u>37,633</u>	<u>38,124</u>	<u>54,788</u>	<u>20,969</u>
COM & CPM				
Ordination – CPM Scholarships	6,418	1,991	7,000	1,409
Colleague Groups	2,717	1,700	1,860	2,557
Pre-Retirement Seminar	19	-	-	19
	<u>9,154</u>	<u>3,691</u>	<u>8,860</u>	<u>3,985</u>
Total Operations	<u>46,787</u>	<u>41,815</u>	<u>63,648</u>	<u>24,954</u>
<u>Investments – quasi-endowment</u>	<u>7,177,619</u>	<u>(397,582)</u>	<u>602,073</u>	<u>6,177,964</u>
Total designated net assets without donor restrictions	<u>\$ 7,449,314</u>	<u>\$ (234,186)</u>	<u>\$ 788,476</u>	<u>\$ 6,426,652</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12. NET ASSETS WITH DONOR RESTRICTIONS

To ensure observance of limitations and restrictions placed on the use of resources available to the Organizations, net assets with donor restrictions of the Organizations are accounted for as follows:

Net assets with donor restrictions include three 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), (2) income funds that hold the dividends, interest and capital gains earned from perpetual endowment funds, and (3) donations given to the Presbytery that must be maintained in perpetuity (i.e. that the fund be managed as a perpetual endowment). The annual spending amount for each endowment is taken out of that endowment's income fund.

Restricted for a Specific Purpose

- **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.

Restricted in Perpetuity

- **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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions were as follows for the year ended December 31, 2018:

	<u>Net Assets With Donor Restrictions 12/31/2017</u>	<u>Revenues, Losses and Contributions</u>	<u>Released From Restrictions</u>	<u>Net Assets With Donor Restrictions 12/31/2018</u>
<u>Restricted for a Specific Purpose:</u>				
<u>Mission Programs</u>				
Church Development				
Church Development	\$ 49,173	\$ 3,175	\$ -	\$ 52,348
Well Grant [PC(U.S.A.)]	30,359	-	4,876	25,483
	<u>79,532</u>	<u>3,175</u>	<u>4,876</u>	<u>77,831</u>
MCC				
Cents Ability	8,970	580	-	9,550
Peacemaking Committee	23,556	2,633	-	26,189
Disaster Assistance	14,927	26,799	40,980	746
	<u>47,453</u>	<u>30,012</u>	<u>40,980</u>	<u>36,485</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>135,913</u>	<u>33,187</u>	<u>45,856</u>	<u>123,244</u>
<u>Operations</u>				
COM and CPM				
Ministry Crisis Fund	131,089	11,593	13,900	128,782
Other Operating Funds				
Grandin Endowment Fund	109,494	(10,942)	-	98,552
Toland Scholarship Fund	2,354	(2,663)	-	(309)
Bovard Scholarship Fund	890	(817)	-	73
Garden Endowment Fund	5,994	(457)	-	5,537
	<u>118,732</u>	<u>(14,879)</u>	<u>-</u>	<u>103,853</u>
Total Operations	<u>249,821</u>	<u>(3,286)</u>	<u>13,900</u>	<u>232,635</u>
<u>Restricted in Perpetuity:</u>				
Endowment				
Toland Scholarship Fund	8,000	-	-	8,000
General Scholarship Fund	56,645	-	-	56,645
Total Endowment	<u>64,645</u>	<u>-</u>	<u>-</u>	<u>64,645</u>
Net assets with donor restrictions	<u>\$ 450,379</u>	<u>\$ 29,901</u>	<u>\$ 59,756</u>	<u>\$ 420,524</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 loan term is 60 months and requires monthly payments of \$788. During 2018, the Organizations leased a new phone system which is treated as an operating lease. The loan term is 36 months and requires monthly payments of \$327. During 2018, the Organizations entered into an agreement to lease residential property for the YAV program for a period of one year. The lease requires monthly payments of \$2,550. The future lease payments for these leases are combined below 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 2018 was \$151,234.

As of December 31, 2018, future required lease payments are:

2019	\$	179,287
2020	\$	13,376
2021	\$	11,087
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 2018 was \$51,874.

Note 15. ENDOWMENT FUNDS

Interpretation of Relevant Law

The Organizations classify as net assets with donor restrictions (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.

In accordance with the Uniform Prudent Management of Institutional Funds Act (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. Deficiencies of this nature exist in two donor-restricted endowment funds, which together have an original gift value of \$64,645, a current fair value of \$62,455, and a deficiency of \$2,190 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 15. ENDOWMENT FUNDS (continued)

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 7%. Only the following types of investments are allowable within the listed percentage ranges:

<u>Asset Class</u>	<u>Percentage Range</u>
<ul style="list-style-type: none"> • <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%
<ul style="list-style-type: none"> • <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%
<ul style="list-style-type: none"> • <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%

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, 2018:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 62,455	\$ 62,455
Board-designated quasi-endowment	6,177,964	-	6,177,964
Total funds	\$ 6,177,964	\$ 62,455	\$ 6,240,419

Changes in Endowment Net Assets for the Year Ended December 31, 2018:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 7,177,619	\$ 74,710	\$ 7,252,329
Investment return			
Net depreciation	(397,582)	(5,255)	(402,837)
Total investment return	(397,582)	(5,255)	(402,837)
Appropriation of endowment for expenditure	(602,073)	(7,000)	(609,073)
Endowment net assets, end of year	\$ 6,177,964	\$ 62,455	\$ 6,240,419

SUPPLEMENTARY INFORMATION

NATIONAL CAPITAL PRESBYTERY AND NATIONAL CAPITAL PRESBYTERY, INC.
Schedule of Secondary and Contingent Liabilities
December 31, 2018

Borrower	Lender	Interest Rate	Maturity Date	Balance
PC(U.S.A.) LOANS				
Wheaton Community	PC(U.S.A.)	3.897%	1/1/2021	\$ 169,240
Church of the Redeemer	PC(U.S.A.)	3.860%	7/1/2026	341,954
Faith Presbyterian	PC(U.S.A.)	3.500%	3/25/2025	89,980
Gaithersburg	PC(U.S.A.)	3.500%	7/25/2026	78,829
Southminster	PC(U.S.A.)	3.770%	1/1/2027	361,836
Takoma Park	PC(U.S.A.)	3.500%	9/25/2022	60,915
John Calvin	PC(U.S.A.)	3.500%	5/25/2034	372,728
1st Pres. Church of Annandale	PC(U.S.A.)	3.500%	4/25/2030	123,586
Church of the Pilgrims	PC(U.S.A.)	3.950%	6/1/2038	599,880
Chevy Chase Presbyterian Church	PC(U.S.A.)	3.500%	2/25/2037	89,980
Riverside Presbyterian Church	PC(U.S.A.)	3.500%	4/25/2037	423,322
Korean	PC(U.S.A.)	4.500%	11/1/2033	637,585
				<u>3,349,835</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	408,259
Clifton Church	Main Street Bank	5.500%	3/14/2024	694,178
Ebenezer	First Citizens Bank	4.000%	3/25/2021	1,479,161
Good Samaritan	County First Bank	4.950%	9/3/2021	221,237
New Hope	PNC Bank	4.990%	10/29/2028	291,517
Kirkwood	Cardinal Bank	3.800%	3/5/2024	951,125
Providence Presbyterian Church	First Citizens Bank	3.800%	10/1/2023	977,849
St. Andrew Presbyterian Church	Bank of Clarke County	4.950%	6/26/2023	1,747,668
				<u>6,770,994</u>
TOTAL SECONDARY AND CONTINGENT LIABILITIES				<u><u>\$ 10,155,129</u></u>

Note: During 2018, the Corporation guaranteed additional PC(U.S.A.) church loans of \$2,300,000 that had not been disbursed as of December 31, 2018.