

The Presbytery of New Covenant, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2011 and 2010

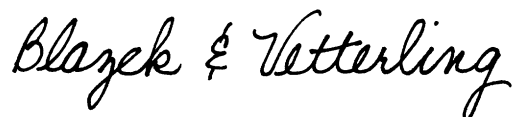
Independent Auditors' Report

To the General Council of
The Presbytery of New Covenant, Inc.:

We have audited the accompanying statements of financial position of The Presbytery of New Covenant, Inc. (the Presbytery) as of June 30, 2011 and 2010 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Presbytery. Our responsibility is to express an opinion on these 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 our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Presbytery as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



October 27, 2011

The Presbytery of New Covenant, Inc.

Statements of Financial Position as of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 263,274	\$ 600,809
Receivables		34,533
Contributions receivable from General Assembly (Note 2)	75,334	201,750
Investments (Note 3)	728,124	1,046,458
Notes receivable (Note 4)	186,613	205,085
Land and improvements held for sale	1,392,239	1,392,239
Property and equipment, net (Note 5)	<u>898,905</u>	<u>775,788</u>
TOTAL ASSETS	<u>\$ 3,544,489</u>	<u>\$ 4,256,662</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 64,551	\$ 56,390
Funds held for others	<u>105,103</u>	<u>321,074</u>
Total liabilities	<u>169,654</u>	<u>377,464</u>
Commitments and contingencies (Notes 7 and 8)		
Net assets:		
Unrestricted	2,862,424	3,193,075
Temporarily restricted (Note 9)	<u>512,411</u>	<u>686,123</u>
Total net assets	<u>3,374,835</u>	<u>3,879,198</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,544,489</u>	<u>\$ 4,256,662</u>

See accompanying notes to financial statements.

The Presbytery of New Covenant, Inc.

Statement of Activities for the year ended June 30, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 49,583	\$ 418,645	\$ 468,228
Contribution support from member churches	1,248,364		1,248,364
Investment return (<i>Note 3</i>)	167,175		167,175
Other income	<u>93,085</u>		<u>93,085</u>
Total revenue	1,558,207	418,645	1,976,852
Net assets released from restrictions:			
Expenditures for program purposes	<u>592,357</u>	<u>(592,357)</u>	
Total	<u>2,150,564</u>	<u>(173,712)</u>	<u>1,976,852</u>
EXPENSES:			
Program expenses:			
Congregation and new church development	1,199,715		1,199,715
Education and community outreach	<u>747,623</u>		<u>747,623</u>
Total program expenses	1,947,338		1,947,338
Management and general	<u>533,877</u>		<u>533,877</u>
Total expenses	<u>2,481,215</u>		<u>2,481,215</u>
CHANGES IN NET ASSETS	(330,651)	(173,712)	(504,363)
Net assets, beginning of year	<u>3,193,075</u>	<u>686,123</u>	<u>3,879,198</u>
Net assets, end of year	<u>\$ 2,862,424</u>	<u>\$ 512,411</u>	<u>\$ 3,374,835</u>

See accompanying notes to financial statements.

The Presbytery of New Covenant, Inc.

Statement of Activities for the year ended June 30, 2010

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 79,206	\$ 775,907	\$ 855,113
Contribution support from member churches	1,269,397		1,269,397
Investment return (<i>Note 3</i>)	160,184		160,184
Other income	<u>102,825</u>		<u>102,825</u>
Total revenue	1,611,612	775,907	2,387,519
Net assets released from restrictions:			
Expenditures for program purposes	<u>719,892</u>	<u>(719,892)</u>	
Total	<u>2,331,504</u>	<u>56,015</u>	<u>2,387,519</u>
EXPENSES:			
Program expenses:			
Congregation and new church development	1,282,828		1,282,828
Education and community outreach	<u>822,723</u>		<u>822,723</u>
Total program expenses	2,105,551		2,105,551
Management and general	<u>584,470</u>		<u>584,470</u>
Total expenses	<u>2,690,021</u>		<u>2,690,021</u>
CHANGES IN NET ASSETS	(358,517)	56,015	(302,502)
Net assets, beginning of year	<u>3,551,592</u>	<u>630,108</u>	<u>4,181,700</u>
Net assets, end of year	<u>\$ 3,193,075</u>	<u>\$ 686,123</u>	<u>\$ 3,879,198</u>

See accompanying notes to financial statements.

The Presbytery of New Covenant, Inc.

Statements of Cash Flows for the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (504,363)	\$ (302,502)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(133,221)	(108,279)
Depreciation	35,790	18,556
Changes in operating assets and liabilities:		
Receivables	34,533	(34,533)
Contributions receivable from General Assembly	126,416	133,500
Accounts payable	8,161	(70,529)
Funds held for others	<u>(215,971)</u>	<u>(255,458)</u>
Net cash used by operating activities	<u>(648,655)</u>	<u>(619,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(18,752)	(31,461)
Proceeds from sale of investments	298,548	329,926
Net change in money market mutual funds held as investments	171,759	(92,569)
Purchases of property and equipment	(158,907)	
Collections of notes receivable	28,472	17,338
Issuance of notes receivable	(10,000)	
Proceeds from property held for sale	<u> </u>	<u>1,000</u>
Net cash provided by investing activities	<u>311,120</u>	<u>224,234</u>
NET CHANGE IN CASH	(337,535)	(395,011)
Cash, beginning of year	<u>600,809</u>	<u>995,820</u>
Cash, end of year	<u>\$ 263,274</u>	<u>\$ 600,809</u>

See accompanying notes to financial statements.

The Presbytery of New Covenant, Inc.

Notes to Financial Statements for the years ended June 30, 2011 and 2010

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Presbytery of New Covenant, Inc. (the Presbytery) of the Presbyterian Church U.S.A. is a Texas nonprofit corporation that began operating on July 1, 1980. The Presbytery is responsible for overseeing the operations of 106 churches in the State of Texas. Contributions are collected from member churches and distributed to various charitable Presbyteries, programs, and missions. The Presbytery is a member of the Synod of the Sun, which is itself a member of the Presbyterian General Assembly of the Presbyterian Church U.S.A. (General Assembly).

Federal income tax status – The Presbytery is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a religious organization under §509(a)(1) and §170(b)(1)(A)(i).

Concentrations of credit risk – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are due within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of expected cash flows, if material.

Investments are reported at fair value.

Land and improvements held for sale are valued at the lower of cost or market.

Property and equipment is reported at cost, if purchased, or at estimated fair value at the date of gift, if donated. Property and equipment purchases over \$500 are capitalized. Depreciation is calculated on a straight-line basis over estimated useful lives of 30 to 39 years for buildings, 5 to 30 years for improvements and 5 to 10 years for furniture, fixtures, and equipment.

Funds held for others – The Presbytery holds funds for several related groups, member churches, committees, and organizations. The Presbytery acts as an agent in collecting, holding, and disbursing these funds. These agency funds are included in the Presbytery's investments and as funds held for others.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recognized in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent accounting pronouncements – During the year ended June 30, 2011, the Presbytery adopted Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which resulted in additional disclosures. This update requires an increased level of disaggregation in disclosing the level of fair value measurements. It also requires additional disclosures for inputs and valuation techniques used for Level 2 and 3 fair value measurements. The effect of this pronouncement resulted in additional required disclosures.

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-09, *Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer’s Participation in a Multiemployer Plan*. This Update requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures. As a nonpublic entity, this Update will become effective as of June 30, 2013.

NOTE 2 – CONTRIBUTIONS RECEIVABLE FROM GENERAL ASSEMBLY

Contributions receivable from the General Assembly at June 30, 2011 are expected to be received as follows:

2012	\$ 26,334
2013 through 2015	<u>49,000</u>
Total	<u>\$ 75,334</u>

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.

- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2011 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Large-cap balanced growth mutual fund	\$ 292,460			\$ 292,460
Money market mutual fund	113,051			113,051
Pooled investment funds:				
TPF large-cap equity fund (a)		\$ 95,707		95,707
TPF fixed income fund (b)		77,347		77,347
TPF international equity fund (c)		56,257		56,257
TPF small-cap equity fund (d)		34,173		34,173
TPF real estate fund (e)		31,310		31,310
TPF defensive strategies fund (f)		27,819		27,819
Total assets measured at fair value	<u>\$ 405,511</u>	<u>\$ 322,613</u>	<u>\$ 0</u>	<u>\$ 728,124</u>

Assets measured at fair value at June 30, 2010 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Large-cap balanced growth mutual fund	\$ 358,581			\$ 358,581
Money market mutual fund	284,810			284,810
Pooled investment funds:				
TPF large-cap equity fund (a)		\$ 137,531		137,531
TPF fixed income fund (b)		128,971		128,971
TPF international equity fund (c)		74,809		74,809
TPF small-cap equity fund (d)		48,301		48,301
TPF real estate fund (e)		13,455		13,455
Total assets measured at fair value	<u>\$ 643,391</u>	<u>\$ 403,067</u>	<u>\$ 0</u>	<u>\$ 1,046,458</u>

The pooled investment funds are the Presbytery’s share of a pooled investment portfolio managed by an ecumenical nonprofit foundation utilizing a diversified group of fund managers. Withdrawals from the funds may be made on the last business day of the month by written request with one day notice. The pooled funds are not traded on a public exchange and are primarily invested in domestic and international equities and debt securities traded on public exchanges. The pooled funds are described as follows:

- This fund is a broadly diversified portfolio of mostly U. S. and some international stocks that seeks to provide opportunities for long-term capital growth, while avoiding speculation and undue risk.
- This fund is an actively managed diversified bond portfolio with a total return strategy designed to serve as the fixed income component for most permanent funds.
- These funds are a broadly diversified portfolio of large, high quality non-U. S. companies and smaller companies in emerging markets that are either ordinary shares traded on securities exchanges around the world or American Depository Receipts traded on U. S. exchanges.
- This fund is a blended-style portfolio of small U. S. companies allocated among managers with distinct growth, value and core strategies.
- These funds are a diversified commingled portfolio of core institutional-quality, income-producing U. S. real estate properties.

- (f) This fund is a broadly diversified portfolio of funds using investment strategies designed to provide consistent, high “risk-adjusted” returns (equity-like returns with bond-like risk).

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of the shares held by the Presbytery at the reporting date.
- *Pooled investment funds* are valued at net asset values provided by the fund management based upon the fair value of the underlying assets.

These valuation methods may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Presbytery believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return including earnings on cash consists of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 33,954	\$ 51,905
Net realized and unrealized gain on investments	<u>133,221</u>	<u>108,279</u>
Total investment return	<u>\$ 167,175</u>	<u>\$ 160,184</u>

NOTE 4 – NOTES RECEIVABLE

Notes receivable consist primarily of loans to member churches, bear interest up to 5.25%, and are to be repaid in one to eleven years. Notes receivable are collateralized by land.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 494,080	\$ 494,080
Building and improvements	743,393	590,518
Furniture, fixtures, and equipment	<u>157,344</u>	<u>151,312</u>
Property and equipment, at cost	1,394,817	1,235,910
Accumulated depreciation	<u>(495,912)</u>	<u>(460,122)</u>
Property and equipment, net	<u>\$ 898,905</u>	<u>\$ 775,788</u>

NOTE 6 – LINE OF CREDIT

The Presbytery has entered into a \$150,000 line of credit agreement with a bank which expires August 12, 2012. No amounts are outstanding under this line as of June 30, 2011 or 2010.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Presbytery purchases professional and general liability insurance to cover losses that may result from asserted claims, as well as claims from unknown incidents that may be asserted in the future. There are known claims and incidents that may result in losses. Management does not expect such losses to have a material adverse effect on the financial position of the Presbytery.

The Book of Order of the Presbyterian Church U.S.A. (Book of Order) governs title to real property and the related debt that funds the acquisition of, or improvements to, such property. It states that all property held by or for a particular church, a presbytery, a synod, the General Assembly, or the Presbyterian Church U.S.A. is held in trust for the benefit of the Presbyterian Church U.S.A. It also does not allow any church to sell, mortgage, or otherwise encumber any of its real property or acquire any real property subject to an encumbrance without the written permission of the Presbytery transmitted through the Session of the particular church.

The Book of Order dictates that the related debt of member churches will revert to the Presbytery if the church is unable to meet its obligations, creating a contingent liability to the Presbytery. The Presbytery also guarantees individual church loans. At June 30, 2011, the Presbytery had contingent liabilities related to member church debt of approximately \$5,000,000.

NOTE 8 – PENSION PLAN

The Presbytery participates in a multi-employer defined benefit pension plan which is administered by the Board of Pensions of the Presbyterian Church U.S.A. and which provides retirement, disability, death, medical, and dental benefits to participants and their eligible dependents and beneficiaries. The Presbytery contributes approximately 11% of an employee's annual salary for the pension benefits. Individual contributions can be made for supplements to Medicare major medical continuation, and additional retirement savings. Pension and other benefit costs paid to the plan was approximately \$211,000 and \$236,000 in 2011 and 2010, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Congregation and mission development	\$ 429,795	\$ 468,319
Community outreach	<u>82,616</u>	<u>217,804</u>
Total temporarily restricted net assets	<u>\$ 512,411</u>	<u>\$ 686,123</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2011, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.