

Financial Statements
Year Ended
June 30, 2007

McLean Presbyterian Church



Certified Public Accountants
Specialized Services
Business Solutions

McLean Presbyterian Church

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Certified Public Accountants
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Report of Independent Auditors

Board of Deacons
McLean Presbyterian Church

We have audited the accompanying statement of financial position of *McLean Presbyterian Church* (a nonprofit organization) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of *McLean Presbyterian Church*. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *McLean Presbyterian Church* as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Goodman & Company, LLP". The signature is written in a cursive style, with the initials "LLP" being more distinct and upright than the rest of the name.

McLean, Virginia
November 20, 2007

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McLean Presbyterian Church

Statement of Financial Position

June 30, 2007

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McLean Presbyterian Church

Statement of Financial Position

June 30,

2007

Assets

Current assets

Cash and cash equivalents	\$ 1,105,099
Certificates of deposit	193,338
Accounts receivable	1,844
Prepaid expenses	155

Total current assets 1,300,436

Property and equipment

Buildings	11,531,001
Land and improvements	882,788
Furniture and equipment	583,891
House	432,798
Manse	188,422

13,618,900

Less - accumulated depreciation (3,472,838)

Total property and equipment - net 10,146,062

Other assets

Cash surrender value	19,395
Renovation in progress	117,050

Total other assets 136,445

Total assets \$ 11,582,943

June 30,**2007**

Liabilities and Net Assets**Current liabilities**

Current maturities of long-term debt	\$ 205,117
Accounts payable	91,951
Accrued expenses	25,455
Deferred revenue	14,912

Total current liabilities337,435**Long-term debt**

Long-term debt - less current maturities	<u>3,186,770</u>
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Total liabilities3,524,205**Net assets**

Unrestricted	6,995,503
Temporarily restricted	<u>1,063,235</u>

Total net assets8,058,738**Total liabilities and net assets**\$ 11,582,943

The accompanying notes are an integral part of these financial statements.

McLean Presbyterian Church

Statement of Activities

Year Ended June 30,	2007
Unrestricted net assets	
Support and revenue	
Contributions and support	\$ 2,595,856
Other income - net	34,767
Net assets released from restrictions	
Satisfaction of contribution restrictions	<u>735,017</u>
Total support and revenue	<u>3,365,640</u>
Expenses	
Ministry	
Salaries and benefits	1,332,470
Child, youth and adult ministries	59,288
Worship and pastoral	62,620
Fellows program	9,265
Ministry support	56,852
Communities	23,565
Music	<u>18,015</u>
Total ministry	<u>1,562,075</u>
Facilities	
Depreciation	363,160
Interest	218,131
Utilities	131,066
Property and equipment maintenance	80,542
Insurance	27,423
Professional fees	13,870
Other facility use	14,835
Miscellaneous	<u>32,870</u>
Total facilities	<u>881,897</u>

The accompanying notes are an integral part of these financial statements.

McLean Presbyterian Church

Statement of Activities (Continued)

Year Ended June 30,	2007
Witness	
Benevolence	384,140
Financial assistance	281,908
Outreach	60,038
Field administration and home support	105,429
Salaries and benefits	106,966
Campaign expenses	58,123
Depreciation	292
Total witness	<u>996,896</u>
Total expenses	<u>3,440,868</u>
Change in unrestricted net assets	<u>(75,228)</u>
Temporarily restricted net assets	
Support and revenue	1,354,757
Net assets released from restrictions	<u>(735,017)</u>
Change in temporarily restricted net assets	<u>619,740</u>
Change in net assets	544,512
Net assets - beginning of year	<u>7,514,226</u>
Net assets - end of year	<u>\$ 8,058,738</u>

The accompanying notes are an integral part of these financial statements.

McLean Presbyterian Church

Statement of Cash Flows

Year Ended June 30,	2007
Cash flows from operating activities	
Change in net assets	\$ 544,512
Adjustments to reconcile to net cash from operating activities:	
Depreciation	363,452
Realized gain on sale of investments	(216)
Noncash contributions received	(59,029)
Change in:	
Accounts receivable	(732)
Prepaid expenses	4,492
Cash surrender value	(1,315)
Accounts payable	22,690
Accrued expenses	(7,636)
Deferred revenue	(7,033)
Net cash from operating activities	<u>859,185</u>
Cash flows from investing activities	
Acquisition of certificates of deposit	(99,409)
Proceeds from sale of investments	164,678
Acquisition of property and equipment	(50,216)
Renovation in progress	(117,050)
Net cash from investing activities	<u>(101,997)</u>
Cash flows from financing activities	
Curtailement of long-term debt	<u>(310,250)</u>
Net change in cash and cash equivalents	446,938
Cash and cash equivalents - beginning of year	<u>658,161</u>
Cash and cash equivalents - end of year	<u>\$ 1,105,099</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 219,228

The accompanying notes are an integral part of these financial statements.

McLean Presbyterian Church

Notes to Financial Statements

June 30, 2007

1. Organization and Nature of Activities

McLean Presbyterian Church (Church) was established on February 15, 1944, for the purpose of establishing and maintaining a place of religious worship. The Church operates from a single location in McLean, Virginia.

The Church is governed by a Session whose members are elected by the congregation according to the rules of the *Book of Church Order of the Presbyterian Church in America* (Book of Church Order) and the constitution and bylaws of the Church. The congregation elects trustees to act on its behalf in certain legal and property matters. It also elects a Board of Deacons to whom is assigned certain business and financial authority as directed by the Book of Church Order and the bylaws of the Church. These responsibilities include appointment of an independent auditor as called for in the bylaws.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accounting policies of the Church are in accordance with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding year. Outlined below are policies considered particularly significant.

Accounting Estimates

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

Financial Statement Presentation

The Church classifies its resources for accounting and reporting purposes into three net asset classes according to externally (donor) imposed restrictions. These net asset categories are unrestricted, temporarily restricted and permanently restricted.

When donor restrictions expire, either through the passage of time or fulfillment of certain conditions, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Church considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at cost, which approximates fair value, and represent amounts due from unrelated entities. Management provides an allowance for doubtful accounts that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Accounts deemed uncollectible are charged off based on individual credit evaluation and specific circumstances of the parties. Management has determined that all accounts receivable are collectible and, therefore, an allowance for doubtful accounts has not been established.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives. Buildings are depreciated over 40 years, improvements over 20 years and furniture and equipment over 3 to 7 years.

The acquisition of property and equipment or repairs, maintenance, or betterments that materially prolong the useful lives of assets are capitalized if in excess of \$1,000.

Advertising

The Church follows the policy of charging the cost of advertising to expense as incurred. Advertising expense for 2007 was \$2,475.

Income Taxes

The Church is exempt from federal income taxes as a religious organization described in Section 501(c)(3) of the Internal Revenue Code except to the extent of any unrelated business income. The Church did not have any unrelated business income during the year.

Net Assets

The accounts of the Church are classified for accounting and reporting purposes into various net asset classes to ensure observation of limitations and restrictions placed on the use of resources of the Church. The nature and purpose of these net asset classes are as follows:

Unrestricted Net Assets

General Fund - represents resources that are available for general support of Church operations, mission support, and for property and equipment acquisitions. Included in this category are net assets designated by the Board for specific purposes.

Temporarily Restricted Net Assets

Deacons Fund - represents resources restricted by donors for the purpose of providing financial assistance to individuals.

Special Assistance Fund - represents resources restricted by donors to support various mission organizations and missionaries.

WPIM and BPIM Mission Board Funds - represent resources held by the Church, serving as the mission board for overseas missionaries.

Church Planting Fund - represents resources restricted by donors to assist with the establishment of a church in Arlington, Virginia.

Multiply the Mission Fund - represents resources restricted by the donors for renovating the sanctuary, major maintenance and the curtailment of long-term debt.

Mortgage Reduction Fund - represents resources restricted by donors to assist with the curtailment of long-term debt.

3. Investment Income

Investment income is included in other income in the statement of activities and consisted of the following for 2007:

Interest	\$	37,216
Net realized gain		<u>216</u>
Total	\$	<u>37,432</u>

4. Lease Commitments

The Church has various operating leases for office equipment that expire through 2010. Total leasing costs associated with these operating leases was \$12,261 for 2007.

The Church leases space to a telephone company for a cellular tower under an operating lease with an original term of 5 years plus three 5-year term options. The telephone company has the right to cancel the lease within thirty days of giving written notice. The lease provides for an annual base rent of \$4,800 (plus an additional \$600 for electrical consumption) with annual increases of 2.5%. Rental revenue associated with this lease was \$7,655 for 2007. Subsequent to year-end, the cellular tower operating lease was canceled.

Future minimum lease payments under existing noncancelable operating leases are as follows for years ending June 30:

2008	\$	6,515
2009		3,755
2010		<u>939</u>
	\$	<u>11,209</u>

5. Long-Term Debt

On January 23, 2003, the Church signed a commercial promissory note with a bank authorizing the borrowing of up to \$4,800,000 to finance the expansion of its facilities. The note, as modified, provides for a construction phase through September 23, 2004, whereby interest only payments are due monthly at the bank's prime rate less .75 percent (with a minimum and maximum rate of 4% and 6.15%, respectively), at which time the note converts to a permanent loan at 6.15% with monthly payments of principal and interest. A second loan modification, dated June 23, 2005, provides that the balance be paid in 60 monthly installments of principal and interest of \$34,000 commencing July 15, 2005. Any remaining unpaid balance becomes due and payable in full on June 15, 2010.

The Church has granted the bank a security interest in certain accounts including deposit accounts maintained at the bank as collateral. In lieu of a deed of trust against the property, the bank has accepted the Church's *Covenant not to Encumber Real Estate* agreement dated January 23, 2003.

Long-term debt consists of the following at June 30, 2007:

Promissory note dated January 23, 2003	\$ 3,391,887
Less - current maturities	<u>(205,117)</u>
	<u>\$ 3,186,770</u>

Estimated principal payments of long-term debt for future years ending June 30 are as follows:

2008	\$ 205,117
2009	218,093
2010	<u>2,968,677</u>
	<u>\$ 3,391,887</u>

6. Retirement Plan

The Church provides for retirement of its employees through a voluntary tax-sheltered annuity plan offered through the Presbyterian Church in America. All employees are eligible for the voluntary salary-reduction part of the plan. In addition, the Church contributes to the plan for all pastors and full-time employees after one year of service. Contributions are fully vested and non-forfeitable at all times. The Church contributed \$58,232 to the plan for 2007.

7. Risks and Uncertainties

Inherent in the Church's operations are various risks and uncertainties, including interest rate movements, general economic conditions, dependence on key employees, and the continued support and geographical concentration of its congregation. Management believes these significant risks and uncertainties can be appropriately managed.

8. Commitments

The Church is currently renovating its sanctuary and the ultimate cost is expected to be approximately \$650,000.

9. Concentration of Credit Risk

The Church maintains certificates of deposit and cash and cash equivalents with financial institutions in excess of federally insured limits. Statement of Financial Accounting Standards No. 105, *Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, identifies this as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. Deposits in excess of federally insured limits were \$1,011,780 as of June 30, 2007.

10. Temporarily Restricted Net Assets

The following table presents temporarily restricted net assets that were released from donor restrictions during the year:

Deacons	\$	60,038
Special assistance		281,908
Missions (WPIM and BPIM)		143,998
Church planting		68,689
Multiply the Mission		156,718
Mortgage reduction		23,666
		<hr/>
	\$	735,017

The following table presents temporarily restricted net assets as of June 30, 2007:

Deacons	\$	82,172
Special assistance		86,291
Mission (WPIM and BPIM)		252,417
Church planting		94,587
Multiply the Mission		547,768
		<hr/>
	\$	1,063,235

The following table presents the components of temporarily restricted net assets as of June 30, 2007:

Cash and cash equivalents	\$	868,053
Certificates of deposit		193,338
Accounts receivable		1,844
		<hr/>
	\$	1,063,235

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Certified Public Accountants
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*Report of Independent Auditors on
Supplementary Information*

Board of Deacons
McLean Presbyterian Church

Our report on our audit of the basic financial statements of *McLean Presbyterian Church* as of and for the year ended June 30, 2007, appears on page 1. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of activities - temporarily restricted net assets for the year ended June 30, 2007, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goodman & Company, LLP

McLean, Virginia
November 20, 2007

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McLean Presbyterian Church

Schedule of Activities - Temporarily Restricted Net Assets

Year Ended June 30, 2007

	Deacons	Special Assistance	Missions		Church Planting	Multiply the Mission	Mortgage Reduction	Total Temporarily Restricted
			WPIM	BPIM				
Support and revenue	\$ 95,495	\$ 144,068	\$ 176,710	\$ 49,069	\$ 163,276	\$ 702,473	\$ 23,666	\$ 1,354,757
Expenses								
Benevolence	-	281,908	-	-	-	-	-	281,908
Field administration and home support	-	-	35,813	53,113	16,503	-	-	105,429
Financial assistance	60,038	-	-	-	-	-	-	60,038
Salaries and benefits	-	-	55,072	-	51,894	-	-	106,966
Campaign expenses	-	-	-	-	-	58,123	-	58,123
Depreciation	-	-	-	-	292	-	-	292
Total expenses	60,038	281,908	90,885	53,113	68,689	58,123	-	612,756
Curtailment of long-term debt	-	-	-	-	-	98,595	23,666	122,261
Net assets released from restrictions	60,038	281,908	90,885	53,113	68,689	156,718	23,666	735,017
Change in temporarily restricted net assets	35,457	(137,840)	85,825	(4,044)	94,587	545,755	-	619,740
Temporarily restricted net assets - beginning of year	46,715	224,131	154,049	16,587	-	2,013	-	443,495
Temporarily restricted net assets - end of year	\$ 82,172	\$ 86,291	\$ 239,874	\$ 12,543	\$ 94,587	\$ 547,768	\$ -	\$ 1,063,235

See report of independent auditors on supplementary information.