

GRACE CHAPEL, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2009
WITH
INDEPENDENT AUDITORS' REPORT

GRACE CHAPEL, INC.

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Independent Auditors' Report

To the Board of Elders
Grace Chapel, Inc.
Lexington, MA

We have audited the accompanying statement of financial position of Grace Chapel, Inc. (the Church) as of April 30, 2009, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Church as of and for the year ended April 30, 2008 were audited by VanceCronin, P.C., which merged with CCR LLP as of June 1, 2008, and whose report dated May 28, 2008, expressed an unqualified opinion on those statements. The summarized information as of April 30, 2008 and for the year then ended has been derived from financial statements previously audited by VanceCronin, P.C.

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 Grace Chapel, Inc. as of April 30, 2009, and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

CCR LLP

Boston, Massachusetts
June 4, 2009

GRACE CHAPEL, INC.

Statements of Financial Position

April 30, 2009

(With Comparative Totals for April 30, 2008)

	2009	2008
Assets		
Cash and cash equivalents	\$ 1,870,517	\$ 991,881
Notes receivable	858,000	858,000
Prepaid expenses	80,420	137,915
Other assets	7,143	11,820
Property and equipment, net	<u>21,803,745</u>	<u>22,552,496</u>
Total assets	<u>\$ 24,619,825</u>	<u>\$ 24,552,112</u>
Liabilities and Net Assets		
Accounts payable	\$ 70,512	\$ 114,808
Accrued expenses	140,430	226,796
Agency funds	14,127	9,265
Notes payable	<u>9,260,469</u>	<u>9,522,019</u>
Total liabilities	9,485,538	9,872,888
Net assets		
Unrestricted net assets	14,551,832	13,965,419
Temporarily restricted net assets	<u>582,455</u>	<u>713,805</u>
Total liabilities and net assets	<u>\$ 24,619,825</u>	<u>\$ 24,552,112</u>

See independent auditors' report and notes to financial statements.

GRACE CHAPEL, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended April 30, 2009
(With Comparative Totals for the Year Ended April 30, 2008)

	2009			2008
	Unrestricted	Temporarily Restricted	Total	
Support and revenue				
Donations and gifts	\$ 6,602,095	\$ -	\$ 6,602,095	\$ 6,554,689
Bequests and planned giving gifts	1,000,000	-	1,000,000	-
Capital contributions	-	74,497	74,497	107,964
Donated services	35,000	-	35,000	60,000
Program services	533,657	612,511	1,146,168	1,660,565
Interest income	-	11,018	11,018	9,034
Rental income	290,706	-	290,706	278,565
Net assets released from restrictions	829,376	(829,376)	-	-
Total support and revenue	9,290,834	(131,350)	9,159,484	8,670,817
Expenses				
Program services				
Ministry	2,991,205	-	2,991,205	2,876,352
Missions	1,739,203	-	1,739,203	1,823,424
Supporting services				
Management and general	2,632,542	-	2,632,542	2,809,407
Buildings	1,341,471	-	1,341,471	1,374,178
Total Expenses	8,704,421	-	8,704,421	8,883,361
Change in net assets	586,413	(131,350)	455,063	(212,544)
Net assets, beginning of year	13,965,419	713,805	14,679,224	14,891,768
Net assets, end of year	\$ 14,551,832	\$ 582,455	\$ 15,134,287	\$ 14,679,224

See independent auditors' report and notes to financial statements.

GRACE CHAPEL, INC.

Statements of Cash Flows
For the Year Ended April 30, 2009
(With Comparative Totals for the Year Ended April 30, 2008)

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 455,063	\$ (212,544)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	774,277	778,126
(Increase) decrease in assets		
Prepaid expenses	57,495	(25,096)
Other assets	4,677	(6,905)
Increase (decrease) in liabilities		
Accounts payable	(44,296)	44,732
Accrued expenses	(86,366)	46,395
Agency funds	4,862	(44,394)
Net cash provided by operating activities	<u>1,165,712</u>	<u>580,314</u>
Cash flows from investing activities		
Purchases of property and equipment and net cash used for investing activities	(25,526)	(97,599)
Cash flows from financing activities		
Payment of notes payable and net cash used for financing activities	<u>(261,550)</u>	<u>(267,006)</u>
Net increase in cash and cash equivalents	878,636	215,709
Cash and cash equivalents, beginning of year	<u>991,881</u>	<u>776,172</u>
Cash and cash equivalents, end of year	<u>\$ 1,870,517</u>	<u>\$ 991,881</u>

See independent auditors' report and notes to financial statements.

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2009

1. Nature of Operations

Grace Chapel, Inc. (the Church) was organized in 1955 and is a not-for-profit organization located in Lexington, Massachusetts. The Church is dedicated to establishing and maintaining the public worship of God and to promoting the evangelical faith in accordance with the principles and doctrines of the Holy Scriptures. The Church is supported primarily through contributions from the congregation and provides various programs to its members and the community, including Christian education, pastoral care, missions, and other special programs.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Church have been prepared on the accrual basis of accounting, whereby revenues and expenses are recorded as they are earned or incurred.

Revenue Recognition

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions are recognized as revenue at their fair value when received. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restriction. Program revenue is recognized in the period in which the supported work is completed. Rental income is recognized in the period in which it is earned.

Donated Goods and Services

Donations of goods are recorded at their estimated fair market value on the date of gift, provided the fair market value is reasonably determinable.

Donations of professional services are recorded as both unrestricted contributions and as expenses in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. For the year ended April 30, 2009, these amounts reflect contributed pastoral services.

Use of Estimates

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

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GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2009

2. Summary of Significant Accounting Policies (Continued)

Tax Exempt Status

The Church is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a public charity. The Church has income from debt financed property; if income exceeds expenses then profits are subject to corporate income tax rates.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within three months or less. These funds are held at investment and financial banking institutions. The funds held at investment institutions are not covered by the Federal Deposit Insurance Corporation. However, the Securities Investor Protection Corporation insures claims up to \$500,000 per customer of an investment institution. Federal Deposit Insurance Corporation coverage for other deposit accounts increased temporarily to \$250,000 per depositor through December 31, 2009. On January 1, 2010, the Federal Deposit Insurance Corporation coverage will return to \$100,000 per depositor for all deposits except certain retirement accounts, which will continue to be insured to \$250,000 per owner. The Church has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Fair Value Measurements for Financial Assets and Financial Liabilities

The Society has partially implemented SFAS No. 157, "*Fair Value Measurements*" for financial assets and financial liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, expands disclosure about fair value measurements and is effective for fiscal years beginning after November 15, 2007. This standard only applies when other standards require or permit the fair value measurement of assets and liabilities. With regard to nonfinancial assets and liabilities which are not recognized or disclosed at fair value in the Church's financial statements on a recurring basis (at least annually), the standard is effective for fiscal years beginning after November 15, 2008.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses, on items for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 in 2008 did not have an impact on the Church's results of operations or financial position, as the Church has not elected the fair value option for any of its eligible financial assets or liabilities.

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GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2009

2. Summary of Significant Accounting Policies (Continued)

Classes of Net Assets

In accordance with Statement of Financial Accounting Standard (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, the Church reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – Net assets that are not restricted by donors. This may include net assets whose use is limited by internally imposed restrictions.

Temporarily Restricted Net Assets – Net assets whose use by the church has been limited by donors to later periods of time, after specific dates, after fulfillment of specific requirements or for specific purposes. Upon fulfillment of all donor limitations, the temporarily restricted net assets are released from restriction.

Permanently Restricted Net Assets – Net assets which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the terms of the endowment. There were no permanently restricted net assets at April 30, 2009.

In addition to classifying net assets as unrestricted, temporarily restricted or permanently restricted, the Church classifies its expenses as:

Program Services, which includes Worship, Community, Discipleship, Outreach and Missions.

Support Services, which includes Management and General and Buildings and Depreciation.

Stock Donations

All stock donations are accepted and immediately sold.

3. Notes Receivable

Notes receivable consists of notes to certain employees of the Church which are secured by real estate. The notes are payable upon the sale of the real estate, employment termination or death. Loans previous to 2006 carry no interest. Interest on all remaining notes is prime rate minus one percent and is due at the termination of the note.

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2009

4. Property and Equipment

Property and equipment consists of the following at April 30, 2009:

Buildings and improvements	\$ 23,043,054
Land and improvements	3,339,256
Furniture, fixtures and equipment	<u>1,283,372</u>
	27,665,682
Less accumulated depreciation	<u>(5,861,937)</u>
Property and equipment, net	<u>\$ 21,803,745</u>

Depreciation expense for the year ended April 30, 2009 was \$774,277. Purchased property and equipment are stated at cost while donated property and equipment is stated at fair value at the date of donation. Depreciation is recognized over the estimated useful life of the asset, typically three to forty years, on a straight-line basis.

The Church capitalizes all expenditures for property and equipment of \$5,000 and over.

5. Note Payable

The Church has a mortgage note payable to Cass Commercial Bank (dated Jun. 1, 2006) which is secured by the properties at 59 Worthen Rd., 2 Militia Dr. and 3 Militia Dr., Middlesex County, State of Massachusetts. The note payable is a Fixed Rate Nondisclosable Loan to the Church for \$5,000,000. This loan had a change in terms of agreement (dated February 1, 2009) which extended the maturity date from March 1, 2010 to February 1, 2014, and also changed the interest rate from 6.10% to 6% through February 2012, and increasing to 6.5% from March 1, 2012 through maturity. Monthly payments are due in the amount of \$36,201 through April 2012 increasing to \$37,531 from March 1, 2012 through maturity. At April 30, 2009, the principal balance of this note was \$4,607,771.

The Church has a mortgage note payable to Cass Commercial Bank (dated Jun. 1, 2006) which is secured by the properties at 1 Militia Dr., 59 Worthen Rd., 2 Militia Dr. and 3 Militia Dr., Middlesex County, State of Massachusetts. The note payable is a Fixed Rate Nondisclosable Loan to the Church for \$3,000,000. This loan had a change in terms of agreement (dated February 1, 2009) which extended the maturity date from February 23, 2010 to February 1, 2014, and also changed the interest rate from 6.10% to 6% through February 2012, and increasing to 6.5% from March 1, 2012 to maturity. Monthly payments are due in the amount of \$21,729 through February 2012 increasing to 21,537 from March 1, 2012 through maturity. At April 30, 2009, the principal balance of this note was \$2,765,700.

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GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2009

5. Note Payable (Continued)

The Church has a note payable to Cass Commercial Bank (dated November 30, 2006) which is secured by the properties at 59 Worthen Rd., 2 Militia Dr. and 3 Militia Dr., Middlesex County, State of Massachusetts. The note payable is a Fixed Rate Nondisclosable Loan to the Church for \$2,000,000. This loan had a change in terms of agreement (dated February 1, 2009) which extended the maturity date from December 1, 2011 to February 1, 2014, and also changed the interest rate from 7.05% to 6% through February 2012, and increasing to 6.5% from March 1, 2012 to maturity. Monthly payments are due in the amount of \$13,707 through February 2012 increasing to \$14,825 from March 1, 2012 through maturity. At April 30, 2009, the principal balance of this note was \$1,886,998.

The Church has a revolving line of credit with Cass Commercial Bank (dated February 1, 2009) which is secured by properties at 59 Worthen Rd., 2 Militia Dr. and 3 Militia Dr., Middlesex County, State of Massachusetts. Interest is payable monthly at the bank's prime rate (4.0% at April 30, 2009). There were no borrowings on the line of credit as of April 30, 2009.

Estimated required principal maturities of long-term debt are as follows:

Year ended	
2010	\$ 304,728
2011	323,791
2012	338,954
2013	350,681
2014	<u>7,942,315</u>
Total long-term debt	<u>\$ 9,260,469</u>

Interest expense was \$592,721 for the year ended April 30, 2009.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of April 30, 2009:

Temporarily restricted net assets:	
Ministry and Missions Projects	\$ 201,613
Benevolence Fund	185,054
Special Offerings	136,156
Memorial Funds	<u>59,632</u>
	<u>\$ 582,455</u>

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2009

7. Commitments and Contingencies

The Church leases certain office equipment under an operating lease expiring March, 2011. Future minimum lease payments under this non-cancelable operating lease as of April 30, 2009 are as follows:

2010	\$	8,184
2011		7,502

8. Retirement Plan

The Church maintains a 403(b) defined contribution plan covering all full-time employees who meet certain age and service requirements. The contributions made by the Church under this plan for the year April 30, 2009 were \$115,671

9. Prior Year Summarized Information

The financial statements contain certain prior year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended April 30, 2008 from which the summarized information was derived.

10. Supplemental Cash Flow Information

Interest and income taxes paid for the year ended April 30, 2009 are as follows:

Interest	\$	<u>596,477</u>
Income Taxes	\$	<u>-</u>

See independent auditors' report.