

GRACE CHAPEL, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2010
WITH
INDEPENDENT AUDITORS' REPORT

GRACE CHAPEL, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Grace Chapel, Inc. (the Church) as of April 30, 2010, and the related statements 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 prior year summarized information has been derived from the Church's 2009 financial statements and, in our report dated June 4, 2009, we expressed an unqualified opinion on those financial statements.

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, 2010, 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
May 27, 2010

GRACE CHAPEL, INC.

Statement of Financial Position

April 30, 2010

(With Comparative Totals for April 30, 2009)

	2010	2009
Assets		
Cash and cash equivalents	\$ 2,273,921	\$ 1,870,517
Notes receivable	712,000	858,000
Prepaid expenses	106,124	80,420
Other assets	4,288	7,143
Property and equipment, net	<u>21,082,541</u>	<u>21,803,745</u>
Total assets	<u>\$ 24,178,874</u>	<u>\$ 24,619,825</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 71,669	\$ 70,512
Accrued expenses	176,808	140,430
Agency funds	100,904	14,127
Notes payable	<u>8,944,675</u>	<u>9,260,469</u>
Total liabilities	<u>9,294,056</u>	<u>9,485,538</u>
Net assets		
Unrestricted net assets	14,260,219	14,551,832
Temporarily restricted net assets	<u>624,599</u>	<u>582,455</u>
Total net assets	<u>14,884,818</u>	<u>15,134,287</u>
Total liabilities and net assets	<u>\$ 24,178,874</u>	<u>\$ 24,619,825</u>

See notes to financial statements.

GRACE CHAPEL, INC.

Statement of Activities
For the Year Ended April 30, 2010
(With Comparative Totals for the Year Ended April 30, 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Total	
Support and revenue				
Donations and gifts	\$ 6,401,560	\$ -	\$ 6,401,560	\$ 6,602,095
Bequests and planned giving gifts	400,000	-	400,000	1,000,000
Capital contributions	-	70,576	70,576	74,497
Donated services	17,500	-	17,500	35,000
Program services	132,559	496,825	629,384	1,146,168
Interest income	-	29,139	29,139	11,018
Rental income	292,254	-	292,254	290,706
Net assets released from restrictions	554,396	(554,396)	-	-
Total support and revenue	7,798,269	42,144	7,840,413	9,159,484
Expenses				
Program services				
Ministry	3,136,658	-	3,136,658	2,991,205
Missions	1,516,355	-	1,516,355	1,739,203
Supporting services				
Management and general	1,966,725	-	1,966,725	2,632,542
Buildings	1,470,144	-	1,470,144	1,341,471
Total expenses	8,089,882	-	8,089,882	8,704,421
Change in net assets	(291,613)	42,144	(249,469)	455,063
Net assets, beginning of year	14,551,832	582,455	15,134,287	14,679,224
Net assets, end of year	\$ 14,260,219	\$ 624,599	\$ 14,884,818	\$ 15,134,287

See notes to financial statements.

GRACE CHAPEL, INC.

Statement of Cash Flows
For the Year Ended April 30, 2010
(With Comparative Totals for the Year Ended April 30, 2009)

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ (249,469)	\$ 455,063
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	768,165	774,277
(Increase) decrease in operating assets		
Prepaid expenses	(25,704)	57,495
Other assets	2,855	4,677
Increase (decrease) in operating liabilities		
Accounts payable	1,157	(44,296)
Accrued expenses	36,378	(86,366)
Agency funds	86,777	4,862
Net cash provided by operating activities	<u>620,159</u>	<u>1,165,712</u>
Cash flows from investing activities		
Collections on notes receivable	146,000	-
Purchases of property and equipment and net cash used for investing activities	<u>(46,961)</u>	<u>(25,526)</u>
Net cash provided by (used for) investing activities	<u>99,039</u>	<u>(25,526)</u>
Cash flows from financing activities		
Borrowings on notes payable	250,000	-
Payment of notes payable	<u>(565,794)</u>	<u>(261,550)</u>
Net cash used for financing activities	<u>(315,794)</u>	<u>(261,550)</u>
Net increase in cash and cash equivalents	403,404	878,636
Cash and cash equivalents, beginning of year	<u>1,870,517</u>	<u>991,881</u>
Cash and cash equivalents, end of year	<u>\$ 2,273,921</u>	<u>\$ 1,870,517</u>

See notes to financial statements.

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

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

Codification

Effective July 1, 2009 the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP. The Church's accounting policies were not affected by the conversion to ASC.

Use of 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, liabilities, net assets, and changes therein, and disclosure of contingent assets and liabilities, if any. Actual results could differ from those estimates.

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 Statement ASC 958, *Not-for-Profit Entities*, 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 ASC 958. For the year ended April 30, 2010, these amounts reflect contributed pastoral services.

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GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

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 returned 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

ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance only applies when the fair value measurement of assets and liabilities is required or permitted. Effective January 1, 2008 the Church adopted the disclosure requirements for financial assets and liabilities and effective January 1, 2009 the Church adopted the disclosure requirements for nonfinancial assets and liabilities. The Church has determined that none of its financial or nonfinancial assets or liabilities are measured at fair value, therefore the disclosure requirements of ASC 820 do not currently apply.

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GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

2. Summary of Significant Accounting Policies (Continued)

Classes of Net Assets

In accordance with ASC 958, *Not-for-Profit Entities*, 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, 2010.

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.

Subsequent Events

Subsequent events were evaluated through May 27, 2010, which is the date the financial statements were available to be issued.

3. Notes Receivable

Notes receivable consists of notes from 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 prior to 2006 carry no interest. Interest on all remaining notes is at the prime rate minus one percent and is due at the maturity or termination of the note.

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

4. Property and Equipment

Property and equipment consists of the following at April 30, 2010 and 2009:

	2010	2009
Buildings and improvements	\$ 23,043,054	\$ 23,043,054
Land and improvements	3,339,256	3,339,256
Furniture, fixtures and equipment	<u>1,330,331</u>	<u>1,283,372</u>
	27,712,641	27,665,682
Less accumulated depreciation	<u>6,630,100</u>	<u>5,861,937</u>
Property and equipment, net	<u>\$ 21,082,541</u>	<u>\$ 21,803,745</u>

Depreciation expense for the year ended April 30, 2010 and 2009 was \$768,165 and \$774,277, respectively. Purchased property and equipment are stated at cost while donated property and equipment are 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. Notes Payable

The Church has a mortgage note payable to Cass Commercial Bank dated June 1, 2006 which is secured by real estate located in Massachusetts. The note 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 6.1% to 6% through February 2012, 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. As of April 30, 2010 the principal balance of this note was \$4,188,143.

The Church has a second mortgage note payable to Cass Commercial Bank dated June 1, 2006 which is secured by real estate located in Massachusetts. The note 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 6.1% to 6% through February 2012, 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. As of April 30, 2010 the principal balance of this note was \$2,671,101.

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GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

5. Notes Payable (Continued)

The Church has a third note payable to Cass Commercial Bank dated November 30, 2006 which is secured by real estate located in Massachusetts. The note 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, 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. As of April 30, 2010 the principal balance of this note was \$1,835,431.

The Church has a revolving line of credit with maximum borrowings of \$1 million 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, Commonwealth of Massachusetts. Interest is payable monthly at the bank's prime rate (4% at April 30, 2010). There were no borrowings on the line of credit as of April 30, 2010.

The Church has a note payable to a private party dated July 1, 2009. The note is a non-interest bearing note to the Church for \$250,000 and is due the earlier of July 1, 2012 or within 30 days of notice to pay by the Holder. As of April 30, 2010 the principal balance of this note was \$250,000.

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

Year ending	
2011	\$ 323,791
2012	338,954
2013	600,681
2014	<u>7,681,249</u>
Total long-term debt	<u>\$ 8,944,675</u>

Interest expense was \$542,021 for the year ended April 30, 2010.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of April 30, 2010 and 2009:

	2010	2009
Temporarily restricted net assets:		
Benevolence Fund	\$ 217,062	\$ 201,613
Ministry and Missions	145,679	185,054
Special Offerings	131,464	136,156
Building Maintenance Fund	70,526	-
Memorial Funds	<u>59,868</u>	<u>59,632</u>
	<u>\$ 624,599</u>	<u>\$ 582,455</u>

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

7. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Releases of restrictions were comprised of the following for the year ended April 30, 2010:

Program Services	\$ 334,806
Benevolence Fund	107,103
Ministry and Missions	78,291
Other Income	29,139
Special Offerings	<u>5,057</u>
	<u>\$ 554,396</u>

8. Commitments and Contingencies

The Church leases certain office equipment under operating leases expiring in March 2011 and October 2013 . Future minimum lease payments under this non-cancelable operating lease as of April 30, 2010 are as follows:

2011	\$ 26,858
2012	19,356
2013	19,356
2014	<u>9,678</u>
	<u>\$ 75,248</u>

Payments under these leases totaled \$25,074 during the year ended April 30, 2010.

9. 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, 2010 were \$113,233.

10. 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 Church's financial statements for the year ended April 30, 2009 from which the summarized information was derived.

GRACE CHAPEL, INC.

Notes to Financial Statements
For the Year Ended April 30, 2010

11. Supplemental Cash Flows Information

Interest and income taxes paid for the year ended April 30, 2010 are as follows:

Interest	<u>\$ 543,595</u>
Income taxes	<u>\$ -</u>