

Fellowship of Grace Brethren Churches, Inc.
(A Not-For-Profit Organization)

Financial Statements
(Unaudited)

Year Ended October 31, 2011 and 2010

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Independent Accountant's Review Report

To the Board of Directors
Fellowship of Grace Brethren Churches, Inc.
PO Box 384
Winona Lake, IN 46590

We have reviewed the accompanying statement of financial position of the Fellowship of Grace Brethren Churches, Inc. (a nonprofit organization) as of October 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note A to the financial statements, generally accepted accounting principles require that the cost of assets which have a useful life of greater than one year be capitalized. The organization has not capitalized such expenditures and the effect to the financial statements has not been determined.

Owens & Company, P.C.

December 22, 2011

Fellowship of Grace Brethren Churches, Inc.
Statement of Financial Position
October 31, 2011 and 2010

	Assets	
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 62,924	\$ 69,960
Prepaid Expenses	3,353	8,622
Other Receivables	2,894	0
Accounts Receivable	<u>500</u>	<u>1,866</u>
Total Current Assets	<u>\$ 69,671</u>	<u>\$ 80,448</u>
OTHER ASSETS		
GBIF - Pension Investment	8,154	19,304
PNC - Pension Investment	2,237	0
LCB - Pension Investment	<u>1,626</u>	<u>1,626</u>
Total Other Assets	<u>\$ 12,017</u>	<u>\$ 20,930</u>
TOTAL ASSETS	<u><u>\$ 81,687</u></u>	<u><u>\$ 101,378</u></u>
Liabilities & Net Assets		
CURRENT LIABILITIES		
Accrued Expenses	\$ 0	\$ 141
Payroll Liabilities	256	456
Accounts Payable	11,035	2,292
Agency Funds, Current Portion	<u>11,376</u>	<u>12,256</u>
Total Current Liabilities	<u>\$ 22,667</u>	<u>\$ 15,144</u>
LONG-TERM LIABILITIES		
Agency Funds, Net of Current Portion	<u>\$ 29,543</u>	<u>\$ 43,106</u>
Total Long-Term Liabilities	<u>\$ 29,543</u>	<u>\$ 43,106</u>
Total Liabilities	<u>\$ 52,210</u>	<u>\$ 58,251</u>
NET ASSETS		
Prior Period Adjustment	\$ (2,024)	\$ 0
Temporarily Restricted Net Assets	(30,527)	(32,680)
Unrestricted Net Assets	<u>62,028</u>	<u>75,807</u>
Total Net Assets	<u>\$ 29,477</u>	<u>\$ 43,127</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 81,687</u></u>	<u><u>\$ 101,378</u></u>

See accompanying notes and accountant's report.

Fellowship of Grace Brethren Churches, Inc.
Statement of Activities
Year Ended October 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
Revenues		
Membership Fees	\$ 142,586	\$ 143,803
Conference Income	90,739	62,842
Contributions	61,067	56,568
Focus Retreats	23,979	20,149
Other Income	<u>1,189</u>	<u>10</u>
Total Unrestricted Revenue	\$ 319,560	\$ 283,372
Expenses		
Program Services		
Conference	\$ 124,275	\$ 98,666
Focus Retreats	48,757	47,187
Supporting Services		
Fellowship Council and Committees	67,261	44,970
General Administrative	<u>93,046</u>	<u>96,214</u>
Total Expenses	<u>\$ 333,339</u>	<u>\$ 287,037</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ (13,779)	\$ (3,666)
TEMPORARILY RESTRICTED NET ASSETS		
Interest Income - Temporarily Restricted	\$ 350	\$ 1,042
POH Donations - Temporarily Restricted	8,303	6,188
Net Assets Released from Restrictions	(6,500)	(35,175)
(Increase)/Decrease in Present Value of Benefit Obligation	<u>0</u>	<u>(2)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,153</u>	<u>\$ (27,947)</u>
Change in Net Assets	\$ (11,626)	\$ (31,612)
Prior Period Adjustment	(2,024)	0
Net Assets at Beginning of Year	<u>43,127</u>	<u>74,739</u>
Net Assets at End of Year	<u><u>\$ 29,477</u></u>	<u><u>\$ 43,127</u></u>

See accompanying notes and accountant's report.

Fellowship of Grace Brethren Churches , Inc.
Statement of Functional Expenses
Year Ended October 31, 2011, with Comparative Totals for 2010

					Totals	
	Conference	Focus Retreat	Fellowship Council and Committees	Office and Administration	2011	2010
Operating Expenses						
Salaries and Benefits	37,251	21,286	6,087	47,894	112,517	111,386
Moderator	0	0	0	0	0	127
Facilities and Equipment	0	6,467	0	0	6,467	15,542
Office and Administration	882	71	425	24,412	25,790	27,275
Travel	4,371	3,203	57,577	11,239	76,390	35,555
Printing and Promotion	10,690	200	280	9,347	20,517	23,114
Special Events	70,928	17,531	2,892	154	91,505	73,458
Other	153	0	0	0	153	579
Total Operating Expenses	<u>124,275</u>	<u>48,758</u>	<u>67,261</u>	<u>93,046</u>	<u>333,339</u>	<u>287,036</u>

See accompanying notes and accountant's report.

Fellowship of Grace Brethren Churches, Inc.
Statement of Cash Flows
Year Ended October 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase(Decrease) in Net Assets	\$ (11,626)	\$ (31,612)
Adjustments to reconcile change in Net Assets to net cash provided by (used in) operating activities:		
Prior Period Adjustment	(2,024)	0
Decrease(Increase) in Operating Assets:		
Accounts Receivable	1,366	27,655
Other Receivable	(2,894)	(1,590)
Other Assets	8,913	0
Prepaid Expenses	5,269	5,655
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	8,743	2,292
Accured Payroll Expense	(200)	(109)
Accrued Expenses	(141)	(1,100)
Agency Funds	<u>(14,443)</u>	<u>578</u>
Total Adjustments	<u>4,589</u>	<u>33,381</u>
Net Cash Provided By Operating Activities	<u>(7,037)</u>	<u>1,769</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>69,960</u>	 <u>68,191</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>\$ 62,924</u></u>	 <u><u>\$ 69,960</u></u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2011 and 2010

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Ministries – The Fellowship of Grace Brethren Churches, Inc. (the Organization) exists to encourage and enable member churches in equipping and uniting the saints in fulfilling the Great Commission. These member churches are located throughout the United States and are independently organized and locally controlled. The major programs include the annual conference of Grace Brethren Churches and local leadership retreats. The principal sources of funding are annual membership fees and registration fees for conferences and retreats.

Income Taxes – The Organization is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization’s tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under section 509(a)(2).

Basis of Presentation – The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and investments which have permanent restrictions placed upon them are included in other assets.

Accounts Receivable – Accounts receivable are primarily comprised of expenses to be reimbursed. The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. Management closely monitors outstanding accounts receivable and charges off to expense any balances that are determined to be uncollectable.

Deferred Revenue – Registration and fees received in advance for conferences and retreats are deferred and recognized over the periods to which the registrations and fees are related.

Contributions – Contributions received are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor.

Agency Funds – The Organization has collected funds for the benefit of another organization and has listed these funds as a current liability. The agency funds are designated for “Promise of Honor.”

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Restricted Resources – Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets from restrictions.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2011 and 2010

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Membership – Membership in the Organization is made up of local Grace Brethren Churches, which subscribe to a common covenant and statement of faith. Membership fees are sent to the Organization based on the membership of the local church.

Property and Equipment – Generally accepted accounting principles require that the cost of assets that have a useful life greater than one (1) year should be capitalized and depreciated over its estimated useful life. The Organization has not capitalized such costs and the effects on the current financial statements have not been determined.

NOTE B – DONATED SERVICES

No amounts have been reflected in the financial statements for donated services. The Organization pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various committee assignments.

NOTE C – RETIREMENT PLANS

Promise of Honor Plan:

The Organization sponsors a defined benefit plan. Participation in the plan was closed as of December 31, 1986. Benefits continue to be paid out of the plan assets. This plan has a non-interest bearing checking account through PNC and a savings account with Grace Brethren Investment Foundation earning 2.53% interest in 2011.

Obligations and Funded Status

	<u>Pension Benefits</u>	
	<u>10/31/11</u>	<u>10/31/10</u>
Fair value of plan assets	\$ 10,391	\$ 19,304
Present value of benefit obligation	40,918	55,362
Unfunded status	30,527	36,058
Donations	6,500	6,188
Benefits paid	11,500	35,175

Assumptions

	<u>Pension Benefits</u>	
	<u>10/31/11</u>	<u>10/31/10</u>
Weighted-average assumptions used to determine benefit obligations:		
Discount/Interest rate	2.79%	3.05%

Life Expectancy Estimates from Social Security Agency's statistical report for 2011
<http://www.ssa.gov/OACT/STATS/table4c6.html>

The following benefit payments, which reflect expected future service, as appropriate with the assumed life expectancy, to be paid without the assumption of interest earned over the years:

	<u>Pension Benefits</u>
10/31/2012	11,376
10/31/2013	10,976
10/31/2014	10,976
10/31/2015	4,010
10/31/2016	2,326
10/31/2017	<u>1,254</u>
Total	\$ 40,918

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2011 and 2010

NOTE C – RETIREMENT PLAN (cont.)

Employee Retirement Plan:

Also, the Organization sponsors a defined contribution retirement plan for its full time employees and for eligible pastors of member churches. Administrative expenses are paid out of plan assets. The Organization contributes to the plan a percentage of each eligible employee's salary. Contributions made during the years ended October 31, 2011 & 2010 were \$8,632 and \$8,592 respectfully.

NOTE D – RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>10/31/11</u>	<u>10/31/10</u>
Defined Benefit Plan "Promise of Honor"	\$ (40,918)	\$ (51,984)
Retirement Investment Plan	<u>10,391</u>	<u>19,304</u>
Total	<u>\$ (30,527)</u>	<u>\$ (32,680)</u>

NOTE E – CONCENTRATION OF CONTRIBUTORS RISK

The Organization's contributions are received from many individuals as well as small churches. However there are 8 churches that give close to 30% of all contributions in each year. It is unlikely that all 8 churches would discontinue operations at the same time. Therefore there is not a perceived risk due to concentration of contributors.

NOTE F– RELATED PARTY TRANSACTIONS

Tom Avey is a full-time employee of the Fellowship of Grace Brethren Churches, and is also a board member on the Retirement Investment Committee (approved by delegates at the annual conference) that oversees the interest of the 401(k) retirement plan and Promise of Honor pension plan for the Organization. Tom's position on the board is completely voluntary and he receives no form of compensation.