

FELLOWSHIP OF GRACE
BRETHREN CHURCHES, INC.
(A NONPROFIT ORGANIZATION)
Winona Lake, Indiana

FINANCIAL STATEMENTS

Years Ended October 31, 2006 and 2005

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To the Board of Directors
Fellowship of Grace Brethren Churches, Inc.
Winona Lake, Indiana

We have reviewed the accompanying statements of financial position of the Fellowship of Grace Brethren Churches, Inc. (a nonprofit organization) as of October 31, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Fellowship of Grace Brethren Churches, Inc.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 generally accepted accounting principles.

January 5, 2007



FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENTS OF FINANCIAL POSITION

October 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 68,781	\$ 82,400
Cash-GBIF	75,005	93,495
Accounts receivable	2,654	912
Prepaid expenses	18,582	6,027
Total Current Assets	<u>\$ 165,022</u>	<u>\$ 182,834</u>
	<u>\$ 165,022</u>	<u>\$ 182,834</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,398	\$ -0-
Advance registration fees	-0-	1,360
Accrued payroll expense	510	473
Accrued expense	500	-0-
Agency funds	108,052	151,631
Total Current Liabilities	<u>\$ 111,460</u>	<u>\$ 153,464</u>
NET ASSETS		
Unrestricted	\$ 92,591	\$ 111,977
Temporarily restricted	(39,029)	(82,607)
Total Net Assets	<u>\$ 53,562</u>	<u>\$ 29,370</u>
	<u>\$ 165,022</u>	<u>\$ 182,834</u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENTS OF ACTIVITIES

Years ended October 31, 2006 and 2005

	2006	2005
UNRESTRICTED NET ASSETS		
Revenues		
Membership fees	\$ 140,908	\$ 136,556
Conference income	129,768	116,588
Focus retreats	29,225	26,435
Contributions	31,900	32,675
Other income	6,487	6,950
Total Unrestricted Revenue	<u>\$ 338,288</u>	<u>\$ 319,204</u>
Expenses		
Program services		
Conference	\$ 164,554	\$ 122,779
Focus retreats	56,970	55,625
Supporting services		
Fellowship council		
and committees	34,422	37,673
General administrative	83,239	80,354
Total Expenses	<u>\$ 339,185</u>	<u>\$ 296,431</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ (897)	\$ 22,773
TEMPORARILY RESTRICTED NET ASSETS		
Interest income	\$ 2,961	\$ -0-
Net assets released from		
restrictions	(21,450)	-0-
Increase in present value of		
benefit obligation	<u>43,578</u>	<u>-0-</u>
CHANGE IN TEMPORARILY		
RESTRICTED NET ASSETS	<u>\$ 25,089</u>	<u>\$ -0-</u>
CHANGE IN NET ASSETS	\$ 24,192	\$ 22,773
NET ASSETS, BEGINNING OF YEAR	<u>29,370</u>	<u>6,597</u>
NET ASSETS, END OF YEAR	<u><u>\$ 53,562</u></u>	<u><u>\$ 29,370</u></u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended October 31, 2006

	CONFERENCE	FOCUS RETREATS	FELLOWSHIP COUNCIL AND COMMITTEES	OFFICE AND ADMINISTRATION	TOTAL
Speakers & honoraria	\$ 4,254	\$	\$ 1,700	\$	\$ 5,954
Salaries & benefits	33,443	18,597	15,182	41,229	108,451
Facilities & equipment	22,090	16,096		8,366	46,552
Childcare	8,396				8,396
Meals	60,643	15,652		264	76,559
Office & administration	98			20,863	20,961
Travel	13,805	5,578	4,183	1,394	24,960
Printing & promotion	12,521	1,047		11,123	24,691
Special events	3,155				3,155
Promise of honor					0
Other	6,149		13,357		19,506
Total Expenses	<u>\$ 164,554</u>	<u>\$ 56,970</u>	<u>\$ 34,422</u>	<u>\$ 83,239</u>	<u>\$ 339,185</u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended October 31, 2005

	CONFERENCE	FOCUS RETREATS	FELLOWSHIP COUNCIL AND COMMITTEES	OFFICE AND ADMINISTRATION	TOTAL
Speakers & honoraria	\$ 16,223	\$	\$ 1,700	\$	\$ 17,923
Salaries & benefits	31,399	17,127	12,965	30,246	91,737
Facilities & equipment	2,960	18,210		10,102	31,272
Childcare	2,575			25,761	28,337
Meals	14,748	13,213		186	28,147
Office & administration					0
Travel	2,902	5,028	10,131	1,257	19,317
Printing & promotion	9,554	2,047		10,172	21,773
Special events	900				900
Promise of honor				2,630	2,630
Other	41,518		12,877		54,395
Total Expenses	<u>\$ 122,779</u>	<u>\$ 55,625</u>	<u>\$ 37,673</u>	<u>\$ 80,354</u>	<u>\$ 296,431</u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENTS OF CASH FLOWS
Years ended October 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 24,192	\$ 22,773
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	(1,742)	8,815
Inventory	-0-	3,027
Prepaid expenses	(12,555)	(2,705)
Increase (decrease) in:		
Accounts payable	2,398	-0-
Accrued payroll expense	37	(6)
Accrued expense	500	-0-
Agency funds	(43,579)	(21,020)
Advance registration fees	(1,360)	(1,675)
Net Cash Provided (Used) by Operating Activities	\$ (32,109)	\$ 9,209
CASH AT BEGINNING OF YEAR	<u>175,895</u>	<u>166,686</u>
CASH AT END OF YEAR	<u><u>\$ 143,786</u></u>	<u><u>\$ 175,895</u></u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2006 and 2005

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 conference and retreats.

Income Taxes - The Organization is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

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 outstanding conference fees. 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 uncollectible.

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.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2006 and 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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.

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. The Organization receives approximately 240 volunteer hours per year.

FELLOWSHIP OF GRACE BRETHERN CHURCHES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2006 and 2005

NOTE C - RETIREMENT PLAN

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, 2006 and 2005, and included in these financial statements, were \$8,100 and \$8,100, respectively.

The Organization also 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.

Obligations and Funded Status

	Pension Benefits	
	10/31/06	10/31/05
Fair value of plan assets at October 31	\$75,005	\$93,495
Present value of benefit obligation at October 31	108,052	151,631
Unfunded status	33,047	58,136
Benefit cost	-	2,630
Employer contributions	-	27,287
Plan participants' contributions	-	-
Benefits paid	21,450	23,650

Assumptions

	Pension Benefits	
	10/31/06	10/31/05
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.5%	4.5%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	4.5%	4.5%

The Company's expected rate of return on plan assets is determined by the plan assets' current investments.

Plan Assets

The Company's pension plan assets are invested in Grace Brethren Investment Foundation at October 31, 2006 and 2005. The interest rate at October 31, 2006 and 2005 was 3.67% and 3.3%, respectively.

FELLOWSHIP OF GRACE BRETHERN CHURCHES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
October 31, 2006 and 2005Cash Flows

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Pension Benefits</u>
10/31/07	\$ 20,196
10/31/08	20,196
10/31/09	19,698
10/31/10	19,121
10/31/11	17,808
10/31/12	12,968
10/31/13	8,990
10/31/14	6,253
10/31/15	1,690
10/31/16	<u>882</u>
Total	<u>\$127,802</u>

NOTE D - CONTRACTS

The Organization has entered into contracts for the use of facilities for future conferences and retreats. If these events are cancelled, the Organization has a potential liability based on the terms of the contracts. The primary obligations relate to the sites for future national conferences. These sites are typically reserved two years in advance and, although there are no funds deposited, there are significant penalties for cancellation. As of October 31, 2006 and 2005, these potential cancellation penalties were approximately \$-0- and \$50,000, respectively.

NOTE E - RESTRICTIONS ON NET ASSETS

All of the restrictions on net assets are related to defined benefit plan funds invested in Grace Brethren Investment Foundation for the payment of retiree benefits.

The value of temporarily restricted net assets as of October 31, 2006 and 2005 was \$(39,029) and \$(82,607), respectively.