

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

Financial Statements
(Unaudited)

Year Ended October 31, 2012 and 2011

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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, 2012 and 2011, 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.

January 13, 2013

Fellowship of Grace Brethren Churches, Inc.
Statement of Financial Position
October 31, 2012 and 2011

	Assets	
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 41,754	\$ 62,924
Prepaid Expenses	6,356	3,353
Accounts Receivable	3,167	500
Other Receivables	<u>0</u>	<u>2,894</u>
Total Current Assets	<u>\$ 51,277</u>	<u>\$ 69,671</u>
OTHER ASSETS		
GBIF - Pension Investment	5,865	8,154
PNC - Pension Investment	2,161	2,237
LCB - Pension Investment	<u>55</u>	<u>1,626</u>
Total Other Assets	<u>\$ 8,080</u>	<u>\$ 12,017</u>
TOTAL ASSETS	<u><u>\$ 59,358</u></u>	<u><u>\$ 81,687</u></u>
Liabilities & Net Assets		
CURRENT LIABILITIES		
Payroll Liabilities	\$ 306	\$ 256
Agency Funds, Current Portion	6,345	11,376
Accounts Payable	<u>18,746</u>	<u>11,035</u>
Total Current Liabilities	<u>\$ 25,398</u>	<u>\$ 22,667</u>
LONG-TERM LIABILITIES		
Agency Funds, Net of Current Portion	<u>\$ 11,066</u>	<u>\$ 29,543</u>
Total Long-Term Liabilities	<u>\$ 11,066</u>	<u>\$ 29,543</u>
Total Liabilities	<u>\$ 36,464</u>	<u>\$ 52,210</u>
NET ASSETS		
Prior Period Adjustment	\$ 0	\$ (2,024)
Temporarily Restricted Net Assets	(9,385)	(30,527)
Unrestricted Net Assets	<u>32,279</u>	<u>62,028</u>
Total Net Assets	<u>\$ 22,894</u>	<u>\$ 29,477</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 59,358</u></u>	<u><u>\$ 81,687</u></u>

See accompanying notes and accountant's report.

Fellowship of Grace Brethren Churches, Inc.
Statement of Activities
Year Ended October 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
Revenues		
Membership Fees	\$ 146,671	\$ 142,586
Conference Income	103,595	90,739
Eagle Commission	85,194	0
Contributions	65,585	61,067
Focus Retreats	30,099	23,979
Other Income	<u>50</u>	<u>1,189</u>
Total Unrestricted Revenue	\$ 431,194	\$ 319,560
Expenses		
Program Services		
Conference	\$ 153,451	\$ 124,275
Focus Retreats	58,643	48,757
Eagle Commission	82,275	0
Supporting Services		
Fellowship Council and Committees	68,221	67,261
General Administrative	<u>96,329</u>	<u>93,046</u>
Total Expenses	\$ 458,920	\$ 333,339
CHANGE IN UNRESTRICTED NET ASSETS	\$ (27,726)	\$ (13,779)
TEMPORARILY RESTRICTED NET ASSETS		
Interest Income - Temporarily Restricted	\$ 160	\$ 350
POH Donations - Temporarily Restricted	5,000	8,303
Net Assets Released from Restrictions	0	(6,500)
(Increase)/Decrease in Present Value of Benefit Obligation	<u>15,982</u>	<u>0</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	\$ 21,142	\$ 2,153
Change in Net Assets	\$ (6,584)	\$ (11,626)
Prior Period Adjustment	0	(2,024)
Net Assets at Beginning of Year	<u>29,477</u>	<u>43,127</u>
Net Assets at End of Year	<u><u>\$ 22,894</u></u>	<u><u>\$ 29,477</u></u>

See accompanying notes and accountant's report.

Fellowship of Grace Brethren Churches, Inc.
Statement of Functional Expenses
Year Ended October 31, 2012, with Comparative Totals for 2011

	Conference	Focus	Retreats	Eagle Commission	Fellowship Council and Committees	General Administrative	Totals	
							2012	2011
Operating Expenses								
Salaries and Benefits	37,251		21,286	29,554	7,320	49,009	144,420	112,517
Facilities and Equipment	0		0	0	0	0	0	6,467
Office and Administration	424		0	12,251	21	28,643	41,338	25,790
Travel	12,017		6,935	36,198	53,257	8,601	117,009	76,390
Printing and Promotion	10,407		200	1,194	91	9,666	21,558	20,517
Special Events	93,353		30,222	0	7,532	411	131,518	91,505
Other	0		0	3,078	0	0	3,078	153
Total Operating Expenses	153,452		58,643	82,275	68,221	96,330	458,920	333,339

See accompanying notes and accountant's report.

Fellowship of Grace Brethren Churches, Inc.
Statement of Cash Flows
Year Ended October 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase(Decrease) in Net Assets	\$ (6,584)	\$ (11,626)
Adjustments to reconcile change in Net Assets to net cash provided by (used in) operating activities:		
Prior Period Adjustment	0	(2,024)
Decrease(Increase) in Operating Assets:		
Accounts Receivable	(2,667)	1,366
Other Receivable	2,894	(2,894)
Other Assets	3,937	8,913
Prepaid Expenses	(3,004)	5,269
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	7,711	8,743
Accrued Payroll Expense	51	(200)
Accrued Expenses	0	(141)
Agency Funds	<u>(23,508)</u>	<u>(14,443)</u>
Total Adjustments	<u>(14,586)</u>	<u>4,589</u>
Net Cash Provided By Operating Activities	<u>(21,170)</u>	<u>(7,037)</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>62,924</u>	 <u>69,960</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>\$ 41,754</u></u>	 <u><u>\$ 62,924</u></u>

See accompanying notes and accountant's report.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2012 and 2011

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 released from restrictions.

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2012 and 2011

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 3.81% interest in 2012.

Obligations and Funded Status

	<u>Pension Benefits</u>	
	<u>10/31/ 12</u>	<u>10/31/ 11</u>
Fair value of plan assets	\$ 8,102	\$ 10,391
Present value of benefit obligation	17,411	40,918
Unfunded status	9,309	30,527
Donations	5,000	6,500
Benefits paid	7,450	11,500

Assumptions

	<u>Pension Benefits</u>	
	<u>10/31/ 12</u>	<u>10/31/ 11</u>
Weighted -average assumptions used to determine benefit obligations:		
Discount /Interest rate	2.79%	2.79%

Life Expectancy Estimates from Social Security Agency's statistical report for 2012
<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>
10/31/2013	6,345
10/31/2014	5,945
10/31/2015	2,977
10/31/2016	1,072
10/31/2017	<u>1,072</u>
Total	\$ 17,411

FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2012 and 2011

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, 2012 & 2011 were \$8,592 and \$8,632 respectfully.

NOTE D – RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>10/31/12</u>	<u>10/31/11</u>
Defined Benefit Plan "Promise of Honor"	\$ (17,411)	\$ (40,918)
Retirement Investment Plan	<u>8,026</u>	<u>10,391</u>
Total	<u>\$ (9,385)</u>	<u>\$ (30,527)</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 24% 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.