

**PRELIMINARY DRAFT**

for review & discussion

■ subject to change

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

FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

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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, 2005 and 2004, 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.

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 on the financial statements has not been determined.

As disclosed in Note C to the financial statements, generally accepted accounting principles require that certain information related to defined benefit pension plans be included in the financial statements. The Organization has not included this required information in the statements or in the notes and the effect on the financial statements has not been determined.

Based on our review, with the exception of the matters described in the preceding paragraphs, 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.

## FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENTS OF FINANCIAL POSITION  
October 31, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 82,400	\$ 80,620
Accounts receivable	912	9,727
Inventory		3,027
Prepaid expenses	6,027	3,322
Total Current Assets	<u>\$ 89,339</u>	<u>\$ 96,696</u>
	<u>\$ 89,339</u>	<u>\$ 96,696</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Advance registration fees	\$ 1,360	\$ 3,035
Accrued payroll expense	473	479
Agency funds	1,390	28,677
Total Current Liabilities	<u>\$ 3,223</u>	<u>\$ 32,191</u>
NET ASSETS		
Unrestricted	\$ 86,116	\$ 54,505
Temporarily restricted		10,000
Total Net Assets	<u>\$ 86,116</u>	<u>\$ 64,505</u>
	<u>\$ 89,339</u>	<u>\$ 96,696</u>

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See accompanying notes and accountant's report.

## FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENTS OF ACTIVITIES  
Years ended October 31, 2005 and 2004

	2005	2004
UNRESTRICTED NET ASSETS		
Revenues		
Membership fees	\$ 136,556	\$ 127,716
Conference income	116,588	90,856
Focus retreats	26,435	32,318
Contributions	31,664	28,075
Other income	4,169	16,113
Total Unrestricted Revenue	\$ 315,412	\$ 295,078
Expenses		
Program services		
Conference	\$ 122,779	\$ 128,980
Focus retreats	55,625	54,617
Supporting services		
Fellowship council		
and committees	37,673	44,895
General administrative	77,724	68,146
Total Expenses	\$ 293,801	\$ 296,638
CHANGE IN UNRESTRICTED NET ASSETS	\$ 21,611	\$ (1,560)
TEMPORARILY RESTRICTED NET ASSETS		
Contribution	\$ -0-	\$ 0
CHANGE IN TEMPORARILY		
RESTRICTED NET ASSETS	\$ -0-	\$ 0
CHANGE IN NET ASSETS	\$ 21,611	\$ (1,560)
NET ASSETS, BEGINNING OF YEAR		66,065
NET ASSETS, END OF YEAR	\$ 21,611	\$ 64,505

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## 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
Other	41,518		12,877		54,395
Total Expenses	<u>\$ 122,779</u>	<u>\$ 55,625</u>	<u>\$ 37,673</u>	<u>\$ 77,724</u>	<u>\$ 293,801</u>

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## FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended October 31, 2004

	CONFERENCE	FOCUS RETREATS	FELLOWSHIP COUNCIL AND COMMITTEES	OFFICE AND ADMINISTRATION	TOTAL
Speakers & honoraria	\$ 7,540	\$	\$ 1,700	\$	\$ 9,240
Salaries & benefits	30,107	16,217	12,334	28,923	87,581
Facilities & equipment	14,256	17,455	2,032	8,500	42,243
Childcare	10,061				10,061
Meals	30,979	14,623	2,575	207	48,384
Office & administration				21,105	21,105
Travel	9,135	3,966	26,254	991	40,346
Printing & promotion	15,786	2,356		8,420	26,562
Special events	6,700				6,700
Other	4,416				4,416
Total Expenses	<u>\$ 128,980</u>	<u>\$ 54,617</u>	<u>\$ 44,895</u>	<u>\$ 68,146</u>	<u>\$ 296,638</u>

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## FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

STATEMENTS OF CASH FLOWS  
Years ended October 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 21,611	\$ (1,560)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	8,815	(9,727)
Inventory	3,027	(3,027)
Prepaid expenses	(2,705)	1,669
Increase (decrease) in:		
Accrued payroll expense	(6)	(968)
Agency funds	(27,287)	603
Advance registration fees	(1,675)	(1,551)
Net Cash Provided (used) by Operating Activities	\$ 1,780	\$ (14,561)
CASH AT BEGINNING OF YEAR	80,620	95,181
CASH AT END OF YEAR	\$ 82,400	\$ 80,620

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FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

NOTES TO FINANCIAL STATEMENTS  
October 31, 2005 and 2004

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.

Trade Accounts Receivable - The Corporation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventory - Inventory is valued at cost using the first-in, first-out (FIFO) basis.

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.

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FELLOWSHIP OF GRACE BRETHREN CHURCHES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2005 and 2004

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.

Property and Equipment - Generally accepted accounting principles require that the cost of assets which 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.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2005 and 2004

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, 2005 and 2004, and included in these financial statements, were \$8,100 and \$5,400, 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. Generally accepted accounting principles require that the assets, liabilities, receipts and distributions of this defined benefit pension plan be included in the financial statements of the Organization. This required information has not been included in the financial statements and the effect on the financial statements has not been determined.

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, 2005 and 2004, these potential cancellation penalties were approximately \$50,000 and \$25,000, respectively.

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