



Financial Statements
With Independent Auditors' Report

April 30, 2016 and 2015

GRACE CHAPEL, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Elders
Grace Chapel, Inc.
Lexington, Massachusetts

We have audited the accompanying financial statements of Grace Chapel, Inc. (Church) (a nonprofit corporation), which comprise the statements of financial position as of April 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Boston, Massachusetts
August 2, 2016

GRACE CHAPEL, INC.

Statements of Financial Position

	April 30,	
	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 3,710,902	\$ 3,406,689
Other current assets	189,216	77,169
Notes receivable	805,168	845,152
Property and equipment, at cost–net	24,107,479	22,084,194
Total Assets	<u>\$ 28,812,765</u>	<u>\$ 26,413,204</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 248,350	\$ 184,563
Accrued expenses	165,679	220,868
Debt	4,676,620	5,019,628
Total liabilities	<u>5,090,649</u>	<u>5,425,059</u>
Net assets:		
Unrestricted:		
Undesignated	2,305,361	2,298,240
Board designated reserve	486,868	172,654
Net investment in property and equipment	19,430,859	17,064,566
	<u>22,223,088</u>	<u>19,535,460</u>
Temporarily restricted	1,499,028	1,452,685
Total net assets	<u>23,722,116</u>	<u>20,988,145</u>
Total Liabilities and Net Assets	<u>\$ 28,812,765</u>	<u>\$ 26,413,204</u>

See notes to financial statements

GRACE CHAPEL, INC.

Statements of Activities

	Year Ended April 30,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
CONTRIBUTIONS AND OTHER INCOME:						
Contributions	\$ 8,566,827	\$ 612,998	\$ 9,179,825	\$ 7,872,558	\$ 807,373	\$ 8,679,931
Donated property	2,950,000	-	2,950,000	-	-	-
	<u>11,516,827</u>	<u>612,998</u>	<u>12,129,825</u>	<u>7,872,558</u>	<u>807,373</u>	<u>8,679,931</u>
Other income:						
Fees and other revenues	281,591	-	281,591	326,317	-	326,317
Rental income	87,564	-	87,564	82,755	-	82,755
Interest income	42,547	-	42,547	42,896	-	42,896
	<u>411,702</u>	<u>-</u>	<u>411,702</u>	<u>451,968</u>	<u>-</u>	<u>451,968</u>
Total Contributions and Other Income	<u>11,928,529</u>	<u>612,998</u>	<u>12,541,527</u>	<u>8,324,526</u>	<u>807,373</u>	<u>9,131,899</u>
NET ASSETS RELEASED BY SATISFACTION OF PURPOSE RESTRICTIONS:						
Capitalized expenditures	-	-	-	462,299	(462,299)	-
Ministry and missions expenses	566,655	(566,655)	-	667,599	(667,599)	-
	<u>566,655</u>	<u>(566,655)</u>	<u>-</u>	<u>1,129,898</u>	<u>(1,129,898)</u>	<u>-</u>
EXPENSES AND LOSSES:						
Program services:						
Ministry	6,305,568	-	6,305,568	6,240,535	-	6,240,535
Missions	2,106,759	-	2,106,759	1,775,885	-	1,775,885
	<u>8,412,327</u>	<u>-</u>	<u>8,412,327</u>	<u>8,016,420</u>	<u>-</u>	<u>8,016,420</u>
Supporting activities:						
Ministry support	1,216,710	-	1,216,710	1,131,486	-	1,131,486
Interest	175,701	-	175,701	188,477	-	188,477
Rental expense	2,818	-	2,818	11,762	-	11,762
	<u>9,807,556</u>	<u>-</u>	<u>9,807,556</u>	<u>9,348,145</u>	<u>-</u>	<u>9,348,145</u>
Total Expenses	<u>9,807,556</u>	<u>-</u>	<u>9,807,556</u>	<u>9,348,145</u>	<u>-</u>	<u>9,348,145</u>
Change in Net Assets	2,687,628	46,343	2,733,971	106,279	(322,525)	(216,246)
Net Assets, Beginning of Year	<u>19,535,460</u>	<u>1,452,685</u>	<u>20,988,145</u>	<u>19,429,181</u>	<u>1,775,210</u>	<u>21,204,391</u>
Net Assets, End of Year	<u>\$ 22,223,088</u>	<u>\$ 1,499,028</u>	<u>\$ 23,722,116</u>	<u>\$ 19,535,460</u>	<u>\$ 1,452,685</u>	<u>\$ 20,988,145</u>

See notes to financial statements

GRACE CHAPEL, INC.

Statements of Cash Flows

	Year Ended April 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,733,971	\$ (216,246)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,141,732	1,091,495
Forgiveness of notes receivable	15,386	10,000
Accrued interest receivable on notes receivable	(3,561)	(5,278)
Donated property	(2,950,000)	-
Capital campaign cash contributions	(43,324)	(218,509)
Change in:		
Other current assets	(112,047)	(68,740)
Accounts payable and accrued expenses	8,598	(32,687)
Net Cash Provided by Operating Activities	<u>790,755</u>	<u>560,035</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collections on notes receivable	28,159	22,030
Purchases of property and equipment	<u>(215,017)</u>	<u>(448,582)</u>
Net Cash Used by Investing Activities	<u>(186,858)</u>	<u>(426,552)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	(343,008)	(580,782)
Capital campaign cash contributions	<u>43,324</u>	<u>218,509</u>
Net Cash Used by Financing Activities	<u>(299,684)</u>	<u>(362,273)</u>
Change in Cash and Cash Equivalents	304,213	(228,790)
Cash and Cash Equivalents, Beginning of Year	<u>3,406,689</u>	<u>3,635,479</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,710,902</u>	<u>\$ 3,406,689</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest (none capitalized)	<u>\$ 170,505</u>	<u>\$ 181,343</u>

See notes to financial statements

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

1. **NATURE OF ORGANIZATION:**

Grace Chapel, Inc. (Church) is incorporated in the state of Massachusetts and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (code). The Church is classified as a publicly supported organization rather than a private foundation under Section 509(a)(1) of the code. Contributions to the Church are deductible for income tax purposes. The Church has income from debt-financed property; as such rental and related income in excess of related expenses are subject to income tax. The Church did not have any taxable income for the years ended April 30, 2016 and 2015.

The Church is one church with multiple campuses in Lexington, Wilmington, and Watertown. All campuses offer a wide variety of ministries and activities on Sundays and throughout the week.

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. **SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements have been prepared on the accrual basis. The preparation of the 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader.

CASH AND CASH EQUIVALENTS AND CREDIT RISK

For purposes of the financial statements, cash and cash equivalents include cash on hand, checking accounts, savings accounts, and money market accounts. These funds are held at investment and financial banking institutions. While the Church's cash and cash balances may at times exceed federally insured limits, it has not experienced any losses in such accounts. The Church believes it is not exposed to any significant credit risk on these accounts.

DONATED INVESTMENTS

The Church's general policy is to liquidate donated investments upon receipt. Donated investment of stock is initially reported at fair market value on the date of the gift. These contributions are then included with cash and cash equivalents.

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

FAIR VALUE MEASUREMENTS

The *Fair Value Measurements and Disclosure* topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Church uses appropriate valuation techniques based on the available inputs to measure the fair value of its donated investments. When available, the Church measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Church had no assets for which fair value measurements were required as of April 30, 2016 and 2015.

OTHER CURRENT ASSETS

Other current assets consist of prepaid expenses, deposits and café inventory.

NOTES RECEIVABLE

As part of a program to attract and retain excellent staff, the Church provides home purchase down payment assistance. Employee notes receivable amounting to approximately \$410,500 and \$429,300 were outstanding as of April 30, 2016 and 2015, respectively, and are less than 2% of total assets. The notes are collateralized by second trust deeds on single family residences located in the towns surrounding the Church. The second trust deeds are subordinated to the first trust deeds on the residences. Interest rates are determined by market rates for second trust deeds at the origination of the notes.

The notes mature at the earliest of the following:

- Six months after the employee is no longer employed by the Church;
- The secured property is sold, transferred or disposed of by the individual;
- The secured property is no longer used as the principal residence for the employee;
- On demand if required by law or if the employee defaults on the note agreement;
- New financing or refinancing of the secured property without the Church's written approval and consent.

Also, during the year ended April 30, 2014, as part of the 1 Militia Drive Building sale, the Church provided the buyer with a second mortgage of \$450,000. The second mortgage has a fixed interest of 6% and amortization is calculated over 15 years. Monthly payments of principal and interest are due to the Church for 5 years with a balloon payment due on maturity in July 2018. This note receivable balance was approximately \$394,600 and \$415,800 as of April 30, 2016 and 2015, respectively. This note was retired in full during May 2016.

No allowance for doubtful accounts has been recorded against these notes based on their collateralization and prior collection history.

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY, EQUIPMENT, AND DEPRECIATION

Items capitalized as property and equipment are reported at cost or, if donated, at fair market value on the date of donation. The Church reports donations of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The capitalization policy is \$5,000. Buildings and equipment are depreciated on the straight-line method over their estimated useful lives ranging from 3 to 40 years.

NET ASSETS

Unrestricted net assets are those currently available for use in the Church under the direction of the board, and those resources invested in property and equipment—net of debt.

Temporarily restricted net assets are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled. (See Note 6.)

CONTRIBUTIONS, OTHER INCOME, AND NET ASSETS RELEASED BY SATISFACTION OF PURPOSE RESTRICTIONS

Contributions are reported when made, which is generally when cash is received, unconditional promises are made, or ownership of donated assets is transferred to the Church. The Church at times receives indications of intent to support. The commitments are faith promises and subject to unilateral change by the donor. The commitments are not considered to be unconditional promises to give and are not reported prior to receipt of the contribution. Upon receipt, these funds are reported as either unrestricted or temporarily restricted support pursuant to donor intent. Bequests are reported as support at the time the Church has an established right to the bequest and proceeds are measurable.

Other income is reported as income when earned.

Net assets are released to the unrestricted funds from temporarily restricted funds when expenses have been incurred in satisfaction of those donor restrictions as disclosed in Note 6.

CONTRIBUTED SERVICES

The Church's ministry could not be fully achieved without the dedicated efforts of many volunteers. These contributed services are not reported as they do not meet the "specialized skills" requirements under current accounting standards.

CONCENTRATION OF CONTRIBUTIONS

Contributions for the Church come primarily from tithes and offerings concentrated in the greater Boston, Massachusetts area.

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES

Expenses are reported when incurred. The Church advertises its programs in various media. All advertising costs are expensed as incurred. The Church's advertising expense was approximately \$19,700 and \$13,400 for the years ended April 30, 2016 and 2015, respectively. The Church incurred no joint costs for years ended April 30, 2016 and 2015. The costs of providing various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of April 30, 2016 and 2015, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Church files information tax returns in the U.S. and Massachusetts. The Church is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2011.

RECLASSIFICATIONS

Certain reclassifications were made to the 2015 financial statements in order to conform to the 2016 presentation. These reclassifications had no effect on change in net assets.

3. PROPERTY AND EQUIPMENT AND NET INVESTMENT IN PROPERTY AND EQUIPMENT:

Property and equipment, at cost-net consists of:

	April 30,	
	2016	2015
Land and improvements	\$ 3,616,756	\$ 3,191,756
Building and improvements	30,611,560	28,069,268
Furniture, fixtures and equipment	1,858,830	2,146,006
	<u>36,087,146</u>	<u>33,407,030</u>
Less accumulated depreciation	<u>(11,979,667)</u>	<u>(11,322,836)</u>
	<u>\$ 24,107,479</u>	<u>\$ 22,084,194</u>

Net investment in property and equipment consists of:

Property and equipment at cost-net	\$ 24,107,479	\$ 22,084,194
Less related debt	<u>(4,676,620)</u>	<u>(5,019,628)</u>
Net investment in property and equipment	<u>\$ 19,430,859</u>	<u>\$ 17,064,566</u>

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

4. DEBT:

Debt consists of:

Mortgage note payable to Cass Commercial Bank (Cass) dated June 1, 2006, which is secured by real estate located at 59 Worthen Rd., 2 Militia Drive and 3 Militia Drive in Lexington, Massachusetts, and assignment of rents. The note is a fixed rate nondisclosable loan to the Church for \$5,000,000. This loan had a change in terms by agreement dated February 1, 2009, and a further revision on November 1, 2011, which extended the maturity date from March 1, 2010 to November 1, 2016, and also changed the interest rate from 6.1% to a fixed 4.95%. Monthly payments were due in the amount of \$28,398 through November 2016, with a balloon payment due November 2016. On June 23, 2013, the mortgage note payable was refinanced with Cass. Monthly payments are due in the amount of \$21,622 through June 2023, with a balloon payment due July 2023. The interest rate on the mortgage payable is equal to half a percentage point under the bank's prime rate (currently 3.5%) with a maximum rate of 6% and a floor of 3.5%.

Mortgage note payable to Cass dated November 30, 2006, which is secured by real estate located at 59 Worthen Rd. and 2 Militia Drive in Lexington, Massachusetts. The note is a fixed rate nondisclosable loan to the Church for \$2,000,000. This loan had a change in terms by agreement dated February 1, 2009, and a further revision on November 1, 2011, which extended the maturity date from December 1, 2011 to November 1, 2016, and also changed the interest rate from 7.05% to a variable rate equal to the bank's prime rate (currently 4%) with a maximum rate of 6.25% and a floor of 4%. Monthly payments were due in the amount of \$12,759 through November 2016, with a balloon payment due November 2016. On June 23, 2013, the mortgage note payable was refinanced with Cass. Monthly payments are due in the amount of \$12,076 through June 2023, with a balloon payment due July 2023. The interest rate on the mortgage payable is equal to half a percentage point under the bank's prime rate (currently 3.5%) with a maximum rate of 6% and a floor of 3.5%.

Mortgage note payable to Cass dated December 1, 2010, which is secured by real estate located at 128 West St. in Wilmington, Massachusetts. The note is a promissory note to the Church for \$2,500,000. Interest was paid monthly and is calculated at the bank's prime rate with a floor of 4%. On June 23, 2013, the mortgage note payable was refinanced with Cass for \$1,000,000. Monthly payments are due in the amount of \$7,482 through June 2023, with a balloon payment due July 2023. The interest rate on the mortgage payable is equal to half a percentage point under the bank's prime rate (currently 3.5%) with a maximum rate of 6% and a floor of 3.5%.

The Church has acquired certain office equipment through a capital lease arrangement, with monthly installments of \$1,830. The lease expires in January 2019. The lease is secured by the related office equipment. The net book value of the office equipment was \$49,773 and \$67,346 (net of accumulated depreciation of \$38,062 and \$20,495) as of April 30, 2016 and 2015, respectively. The Church also received a rebate for \$15,000 which is also being amortized over the life of the 60 month lease.

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

4. DEBT, continued:

Debt summary as follows:

	April 30,	
	2016	2015
\$5,000,000 bank mortgage loan	\$ 2,423,185	\$ 2,593,127
\$2,000,000 bank mortgage loan	1,353,357	1,448,270
\$1,000,000 bank mortgage loan	838,495	897,299
Capital lease	61,583	80,932
	<u>\$ 4,676,620</u>	<u>\$ 5,019,628</u>

Debt is estimated to mature as follows:

<u>Year Ending April 30,</u>	
2017	\$ 356,694
2018	370,482
2019	378,578
2020	373,143
2021	386,921
Thereafter	<u>2,810,802</u>
	<u>\$ 4,676,620</u>

5. REVOLVING LINE OF CREDIT:

The Church has a revolving line of credit with maximum borrowings of \$1,000,000 with Cass dated December 13, 2004, which is secured by real estate located in Massachusetts. Interest is payable monthly at the bank's prime rate minus half a percentage point (4% at both April 30, 2016 and 2015). There were no borrowings on the line of credit as of and during the years ended April 30, 2016 and 2015.

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted activities consist of:

April 30,				
	2015	Contributions	Net Assets Released	2016
Capital campaign	\$ 463,554	\$ 43,324	\$ (45,646)	\$ 461,232
Ministry	323,333	214,445	(168,842)	368,936
Memorials	275,218	-	-	275,218
Ministry support	220,556	4,505	(4,505)	220,556
Missions	170,024	350,724	(347,662)	173,086
	<u>\$ 1,452,685</u>	<u>\$ 612,998</u>	<u>\$ (566,655)</u>	<u>\$ 1,499,028</u>

April 30,				
	2014	Contributions	Net Assets Released	2015
Capital campaign	\$ 803,957	\$ 218,509	\$ (558,912)	\$ 463,554
Ministry	320,042	164,172	(160,881)	323,333
Memorials	275,218	-	-	275,218
Ministry support	220,556	-	-	220,556
Missions	155,437	424,692	(410,105)	170,024
	<u>\$ 1,775,210</u>	<u>\$ 807,373</u>	<u>\$ (1,129,898)</u>	<u>\$ 1,452,685</u>

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2016 and 2015

7. EMPLOYEE BENEFITS:

RETIREMENT PLAN

The Church has established a 403(b) defined contribution retirement plan covering all employees, subject to certain exceptions described in the Summary Plan Document. The Church contributed 3% of the participants' eligible compensation for both the years ended April 30, 2016 and 2015. The Church also matched the first 3% of eligible compensation deferred by the participants. All eligible participants can enroll and participate immediately upon employment. A more complete description of the benefit provisions can be found in the Church's 403(b) Plan Agreement. The Church's contributions were approximately \$160,000 and \$152,800 for the years ended April 30, 2016 and 2015, respectively.

OTHER BENEFITS

The Church also provides its employees whose scheduled hours per week are 35 or more with the following benefits: group life insurance, group accidental death, group long-term care, group short-term care and employer paid medical and dental insurance premiums. A more complete description of the benefit provisions can be found in the respective plan agreements. The Church's expenses for these other benefits were approximately \$554,100 and \$596,300 for the years ended April 30, 2016 and 2015, respectively.

8. OPERATING LEASES:

Operating leases consist of payments for the use of certain office equipment. Lease payments for the years ended April 30, 2016 and 2015, were approximately \$23,600 and \$25,700, respectively.

Operating leases are payable as follows:

Year Ending April 30,

2017

\$ 15,800

9. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.