



GRACE CHAPEL, INC.

Financial Statements
With Independent Auditors' Report

April 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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
October 25, 2018

GRACE CHAPEL, INC.

Statements of Financial Position

	April 30,	
	2018	2017
ASSETS:		
Cash and cash equivalents	\$ 3,727,458	\$ 4,672,945
Other current assets	134,917	128,949
Notes receivable	390,535	400,535
Property and equipment, at cost–net	23,125,895	23,172,660
Total Assets	<u>\$ 27,378,805</u>	<u>\$ 28,375,089</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 88,843	\$ 262,989
Accrued expenses	334,579	259,250
Debt	3,962,805	4,319,942
Total liabilities	<u>4,386,227</u>	<u>4,842,181</u>
Net assets:		
Unrestricted:		
Undesignated	2,298,914	2,247,379
Board designated reserve	616,153	1,086,868
Net investment in property and equipment	19,163,090	18,852,718
	<u>22,078,157</u>	<u>22,186,965</u>
Temporarily restricted	914,421	1,345,943
Total net assets	<u>22,992,578</u>	<u>23,532,908</u>
Total Liabilities and Net Assets	<u>\$ 27,378,805</u>	<u>\$ 28,375,089</u>

See notes to financial statements

GRACE CHAPEL, INC.

Statements of Activities

	Year Ended April 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
CONTRIBUTIONS AND OTHER INCOME:						
Contributions	\$ 9,533,635	\$ 558,486	\$ 10,092,121	\$ 9,109,560	\$ 602,422	\$ 9,711,982
Other income:						
Fees and other revenues	268,577	-	268,577	302,390	-	302,390
Rental income	73,846	-	73,846	84,536	-	84,536
Interest income	38,090	-	38,090	36,300	-	36,300
	380,513	-	380,513	423,226	-	423,226
Total Contributions and Other Income	9,914,148	558,486	10,472,634	9,532,786	602,422	10,135,208
NET ASSETS RELEASED BY SATISFACTION OF PURPOSE RESTRICTIONS:						
Program expenditures	716,220	(716,220)	-	544,106	(544,106)	-
Property and equipment expenditures	273,788	(273,788)	-	211,401	(211,401)	-
Total Releases From Restriction	990,008	(990,008)	-	755,507	(755,507)	-
EXPENSES AND LOSSES:						
Program services:						
Ministry	7,207,078	-	7,207,078	6,680,726	-	6,680,726
Missions	2,333,237	-	2,333,237	2,199,496	-	2,199,496
	9,540,315	-	9,540,315	8,880,222	-	8,880,222
Supporting activities:						
Ministry support	1,303,449	-	1,303,449	1,273,248	-	1,273,248
Interest	162,088	-	162,088	162,477	-	162,477
Rental expense	7,112	-	7,112	8,469	-	8,469
Total Expenses	11,012,964	-	11,012,964	10,324,416	-	10,324,416
Change in Net Assets	(108,808)	(431,522)	(540,330)	(36,123)	(153,085)	(189,208)
Net Assets, Beginning of Year	22,186,965	1,345,943	23,532,908	22,223,088	1,499,028	23,722,116
Net Assets, End of Year	\$ 22,078,157	\$ 914,421	\$ 22,992,578	\$ 22,186,965	\$ 1,345,943	\$ 23,532,908

See notes to financial statements

GRACE CHAPEL, INC.

Statements of Cash Flows

	Year Ended April 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (540,330)	\$ (189,208)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,256,633	1,197,155
Forgiveness of notes receivable	10,000	10,000
Capital campaign contributions	-	(30,056)
Change in:		
Other current assets	(5,968)	60,267
Accounts payable and accrued expenses	(98,817)	108,210
Net Cash Provided by Operating Activities	621,518	1,156,368
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collections on notes receivable	-	394,633
Purchases of property and equipment	(1,209,868)	(262,336)
Net Cash Provided (Used) by Investing Activities	(1,209,868)	132,297
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	(357,137)	(356,678)
Cash received for capital campaign contributions	-	30,056
Net Cash Used by Financing Activities	(357,137)	(326,622)
Change in Cash and Cash Equivalents	(945,487)	962,043
Cash and Cash Equivalents, Beginning of Year	4,672,945	3,710,902
Cash and Cash Equivalents, End of Year	\$ 3,727,458	\$ 4,672,945
SUPPLEMENTAL INFORMATION:		
Cash paid for interest (none capitalized)	\$ 159,599	\$ 158,378

See notes to financial statements

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2018 and 2017

1. NATURE OF ORGANIZATION:

Grace Chapel, Inc. (Church) is incorporated in the state of Massachusetts and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, the Church is subject to federal income tax on any unrelated business taxable income. 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, 2018 and 2017. In addition, the Church is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

The Church is one church with multiple campuses in Lexington, Wilmington, Watertown and Foxboro. 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. At April 30, 2018 and 2017, the Church's cash balances exceeded federally insured limits by \$3,380,938 and \$4,187,328, respectively. The Church has not experienced any losses on such accounts and does not believe it is 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, 2018 and 2017

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, 2018 and 2017.

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 \$390,500 and \$400,500 were outstanding as of April 30, 2018 and 2017, 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 had a fixed interest of 6% and amortization was calculated over 15 years. 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, 2018 and 2017

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. The Church has adopted a policy of considering restricted contributions received and fully expended during the fiscal year as unrestricted net assets.

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, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES

Expenses are recognized when incurred. The Church advertises its programs in various media. All advertising costs are expensed as incurred. The Church's advertising expense was approximately \$28,900 and \$14,400 for the years ended April 30, 2018 and 2017, respectively. The Church incurred no joint costs for the years ended April 30, 2018 and 2017. 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.

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

Property and equipment, at cost-net consists of:

	April 30,	
	2018	2017
Land and improvements	\$ 3,624,788	\$ 3,624,788
Building and improvements	31,765,967	30,752,735
Furniture, fixtures and equipment	2,114,881	1,869,729
	<u>37,505,636</u>	<u>36,247,252</u>
Less accumulated depreciation	<u>(14,433,453)</u>	<u>(13,176,824)</u>
	23,072,183	23,070,428
Work in process	53,712	102,232
	<u>\$ 23,125,895</u>	<u>\$ 23,172,660</u>

Depreciation expense for the years ended April 30, 2018 and 2017, was \$1,256,633 and \$1,197,155, respectively.

Net investment in property and equipment consists of:

	April 30,	
	2018	2017
Property and equipment at cost-net	\$ 23,125,895	\$ 23,172,660
Less related debt	<u>(3,962,805)</u>	<u>(4,319,942)</u>
Net investment in property and equipment	<u>\$ 19,163,090</u>	<u>\$ 18,852,718</u>

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2018 and 2017

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 4.25%) 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 4.25%) 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 4.25%) 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 \$14,639 and \$32,206 (net of accumulated depreciation of \$73,196 and \$55,629) as of April 30, 2018 and 2017, 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, 2018 and 2017

4. DEBT, continued:

Debt summary as follows:

	April 30,	
	2018	2017
\$5,000,000 bank mortgage loan	\$ 2,071,209	\$ 2,246,877
\$2,000,000 bank mortgage loan	1,156,778	1,254,889
\$1,000,000 bank mortgage loan	716,700	777,487
Capital lease	18,118	40,689
	<u>\$ 3,962,805</u>	<u>\$ 4,319,942</u>

Debt is estimated to mature as follows:

<u>Year Ending April 30,</u>	
2019	\$ 348,758
2020	344,777
2021	360,325
2022	376,162
2023	392,695
Thereafter	<u>2,140,088</u>
	<u>\$ 3,962,805</u>

5. REVOLVING LINE OF CREDIT:

The Church has a revolving line of credit with maximum borrowings of \$1,000,000 with Cass which is secured by real estate located in Massachusetts. Interest is payable monthly at the bank's prime rate minus half a percentage point (4.25% at April 30, 2018, and 4% at April 30, 2017). There were no borrowings on the line of credit as of and during the years ended April 30, 2018 and 2017.

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2018 and 2017

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted activities consist of:

	April 30,			
	2017	Contributions	Net Assets Released	2018
Ministry	\$ 389,844	\$ 148,660	\$ (205,016)	\$ 333,488
Ministry support	220,556	-	-	220,556
Missions	183,128	399,283	(376,545)	205,866
Memorials	272,528	-	(134,659)	137,869
Capital campaign	279,887	10,543	(273,788)	16,642
	\$ 1,345,943	\$ 558,486	\$ (990,008)	\$ 914,421

	April 30,			
	2016	Contributions	Net Assets Released	2017
Ministry	\$ 368,936	\$ 197,014	\$ (176,106)	\$ 389,844
Ministry support	220,556	-	-	220,556
Missions	173,086	375,352	(365,310)	183,128
Memorials	275,218	-	(2,690)	272,528
Capital campaign	461,232	30,056	(211,401)	279,887
	\$ 1,499,028	\$ 602,422	\$ (755,507)	\$ 1,345,943

GRACE CHAPEL, INC.

Notes to Financial Statements

April 30, 2018 and 2017

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, 2018 and 2017. 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 \$184,000 and \$173,000 for the years ended April 30, 2018 and 2017, respectively.

OTHER BENEFITS

The Church also provides its employees whose scheduled hours per week are 30 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 \$784,000 and \$650,000 for the years ended April 30, 2018 and 2017, respectively.

8. OPERATING LEASES:

Operating leases consist of payments for the use of certain office equipment. Lease payments for the years ended April 30, 2018 and 2017, were approximately \$21,100 and \$25,700, respectively.

Operating leases are payable as follows:

<u>Year Ending April 30,</u>	
2019	\$ 28,313
2020	28,313
2021	20,799
2022	3,588
	<hr/>
	\$ 81,013
	<hr/>

9. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 25, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.