

GRACE FELLOWSHIP CHURCH, INC.
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Grace Fellowship Church, Inc. and Subsidiary
9505 Deereco Road
Timonium, Maryland

We have audited the accompanying consolidated financial statements of Grace Fellowship Church, Inc., (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Grace Fellowship Church, Inc. and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grace Fellowship Church, Inc. and Subsidiary as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grandizio, Wilkins, Little & Matthews LLP

Grandizio, Wilkins, Little & Matthews, LLP
April 27, 2016

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,381,671	\$ 3,780,877
Prepaid Expenses	108,715	67,138
Accounts Receivable	74,457	21,759
	<u>3,564,843</u>	<u>3,869,774</u>
TOTAL CURRENT ASSETS		
PROPERTY AND EQUIPMENT		
Furniture and Fixtures	2,002,397	1,880,919
Leasehold Improvements	2,268,896	2,248,986
Vehicles	-	4,500
	<u>4,271,293</u>	<u>4,134,405</u>
Total	4,271,293	4,134,405
Less: Accumulated Depreciation	<u>(3,019,555)</u>	<u>(2,834,940)</u>
	<u>1,251,738</u>	<u>1,299,465</u>
NET PROPERTY AND EQUIPMENT		
OTHER ASSETS		
Security Deposits	21,875	21,875
Land Deposit	300,000	-
Due from Shrewsbury	167,610	292,610
	<u>489,485</u>	<u>314,485</u>
TOTAL OTHER ASSETS		
	<u>489,485</u>	<u>314,485</u>
TOTAL ASSETS		
	<u><u>\$ 5,306,066</u></u>	<u><u>\$ 5,483,724</u></u>

The independent auditors' report and accompanying notes are
an integral part of these consolidated financial statements.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,	2015	2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 164,485	\$ 164,235
Current Portion of Capital Lease Obligations	<u>21,516</u>	<u>20,674</u>
TOTAL CURRENT LIABILITIES	186,001	184,909
LONG-TERM LIABILITIES		
Capital Lease Obligations	<u>53,674</u>	<u>75,190</u>
TOTAL LIABILITIES	<u>239,675</u>	<u>260,099</u>
NET ASSETS		
Unrestricted	1,707,764	1,726,031
Temporarily Restricted	<u>3,358,627</u>	<u>3,497,594</u>
TOTAL NET ASSETS	<u>5,066,391</u>	<u>5,223,625</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,306,066</u></u>	<u><u>\$ 5,483,724</u></u>

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GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30,	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 4,238,154	\$ 374,046	\$ 4,612,200	\$ 4,382,725	\$ 532,201	\$ 4,914,926
Event and Material Revenue	256,904	-	256,904	189,109	-	189,109
Rental Income	33,872	-	33,872	31,452	-	31,452
Interest	2,907	-	2,907	5,375	-	5,375
TOTAL SUPPORT AND REVENUE	4,531,837	374,046	4,905,883	4,608,661	532,201	5,140,862
FUNCTIONAL EXPENSES						
Program Activities	4,443,463	-	4,443,463	4,518,535	-	4,518,535
Management Activities	619,654	-	619,654	602,577	-	602,577
TOTAL FUNCTIONAL EXPENSES	5,063,117	-	5,063,117	5,121,112	-	5,121,112
CHANGE IN NET ASSETS FROM OPERATIONS	(531,280)	374,046	(157,234)	(512,451)	532,201	19,750
NET ASSETS RELEASED FROM RESTRICTIONS						
Satisfaction of Program Restrictions	513,013	(513,013)	-	106,901	(106,901)	-
CHANGE IN NET ASSETS	(18,267)	(138,967)	(157,234)	(405,550)	425,300	19,750
Net Assets - Beginning of Year	1,726,031	3,497,594	5,223,625	2,131,581	3,072,294	5,203,875
NET ASSETS - END OF YEAR	\$ 1,707,764	\$ 3,358,627	\$ 5,066,391	\$ 1,726,031	\$ 3,497,594	\$ 5,223,625

The independent auditors' report and accompanying notes are
an integral part of these consolidated financial statements.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2015 and 2014

	2015		
	Program	Management	Total
FUNCTIONAL EXPENSES			
Compensation	\$ 2,352,024	\$ 357,981	\$ 2,710,005
Depreciation	158,849	28,032	186,881
Support Other Ministries	376,015	-	376,015
Summer Missions	59,507	-	59,507
Facility and Equipment	868,175	96,464	964,639
Office and Technology	-	95,307	95,307
Benevolence	45,526	-	45,526
Travel and Retreat	106,886	29,636	136,522
Professional Services	195,172	-	195,172
Hospitality and Conferences	105,409	-	105,409
Ministry Materials	96,365	-	96,365
Other	79,535	8,776	88,311
Interest	-	3,458	3,458
	<u>\$ 4,443,463</u>	<u>\$ 619,654</u>	<u>\$ 5,063,117</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 4,443,463</u>	<u>\$ 619,654</u>	<u>\$ 5,063,117</u>
2014			
	2014		
	Program	Management	Total
FUNCTIONAL EXPENSES			
Compensation	\$ 2,376,335	\$ 369,531	\$ 2,745,866
Depreciation	143,878	25,390	169,268
Support Other Ministries	422,392	-	422,392
Summer Missions	23,008	-	23,008
Facility and Equipment	860,149	95,572	955,721
Office and Technology	-	70,887	70,887
Benevolence	34,957	-	34,957
Travel and Retreat	172,923	31,785	204,708
Professional Services	167,932	-	167,932
Hospitality and Conferences	128,509	-	128,509
Ministry Materials	131,110	-	131,110
Other	57,342	6,372	63,714
Interest	-	3,040	3,040
	<u>\$ 4,518,535</u>	<u>\$ 602,577</u>	<u>\$ 5,121,112</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 4,518,535</u>	<u>\$ 602,577</u>	<u>\$ 5,121,112</u>

The independent auditors' report and accompanying notes are
an integral part of these consolidated financial statements.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (157,234)	\$ 19,750
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	186,881	169,268
(Gain) Loss on Sale of Vehicle	(8,955)	-
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(52,698)	945
Prepaid Expenses	(41,577)	27,941
Accounts Payable and Accrued Expenses	250	6,716
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(73,333)</u>	<u>224,620</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit on Land Purchase	(300,000)	-
Proceeds from Sale of Vehicle	11,280	-
Purchase of Equipment and Improvements	(141,479)	(171,742)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(430,199)</u>	<u>(171,742)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Capital Lease Obligations	(20,674)	(19,518)
Repayments Received from Shrewsbury	125,000	125,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>104,326</u>	<u>105,482</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(399,206)	158,360
Cash and Cash Equivalents - Beginning of Year	<u>3,780,877</u>	<u>3,622,517</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,381,671</u>	<u>\$ 3,780,877</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	<u>\$ 3,458</u>	<u>\$ 3,040</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Furniture and Fixtures Obtained Through Capital Lease	<u>\$ -</u>	<u>\$ 109,195</u>

The independent auditors' report and accompanying notes are
an integral part of these consolidated financial statements.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

Note 1: Organization and Summary of Significant Accounting Policies

Organization and Nature of Activities

Grace Fellowship Church, Inc. (the Organization) is a non-profit organization established as a Christian Church operating in Timonium, Maryland. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as determined by the Internal Revenue Service with the exception of some unrelated business income.

In May 2015, the Organization created Wooded Acres, LLC to purchase a parcel of land. The Organization is the one hundred percent (100%) owner of Wooded Acres, LLC.

The following summarizes the significant accounting policies used in the preparation of these consolidated financial statements:

Principles of Consolidation

The consolidated financial statements include the accounts of Grace Fellowship Church, Inc. and its one hundred percent (100%) owned subsidiary, Wooded Acres, LLC, (collectively referred to as the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Method of Accounting

The Organization uses the accrual basis of accounting, recognizing contributions when measurable and available and expenses when incurred. Under generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of June 30, 2015 and 2014.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three (3) months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost if purchased, or if donated as support, at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using straight-line and accelerated methods over the estimated useful lives of the related assets which ranges from three (3) to thirty-nine (39) years.

Accounts Receivable

Management is of the opinion that all of the Organization's accounts receivable are fully collectible and no allowance for doubtful accounts is required.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of June 30, 2015 and 2014, the Organization has temporarily restricted net assets from donors in the amounts of \$3,358,627 and \$3,497,594, respectively. These funds are temporarily restricted due to the funds being designated by the donor for a specific purpose.

Donated Materials

The Organization records donated materials and equipment as contributions. Such items are recorded at their estimated fair market value at the date of receipt.

Donated Services

The Organization records donated services if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no such services for the years ended June 30, 2015 and 2014.

Income Taxes

The Organization is a nonprofit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation.

The Organization's evaluation on June 30, 2015 revealed no uncertain tax positions that would have a material impact on the consolidated financial statements. The 2011 through 2013 tax years remain subject to examination by the IRS. The Organization does not believe that any reasonably possible changes will occur within the next twelve (12) months that will have a material impact on the consolidated financial statements.

Accounting for Impairment

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis or other valuation technique. There were no impairment losses recognized for the years ended June 30, 2015 and 2014.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Date of Management's Review

The Organization has evaluated events and transactions that occurred during the period from the date of the consolidated financial statements through April 27, 2016, the date the Organization's consolidated financial statements were available to be issued. There were no events or transactions that occurred during the period that materially impacted the amounts or disclosures in the Organization's consolidated financial statements.

Note 2: Concentration of Credit Risk

The Organization maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2015 and 2014, cash balances exceeded the insured amounts, however, management believes that no significant concentration of credit risk exists with respect to these balances.

Note 3: Temporarily Restricted Net Assets

As of June 30, 2015 and 2014, temporarily restricted net assets are available for the following:

	<u>2015</u>	<u>2014</u>
OTH (Over the Horizon)	\$ 46,669	\$ 28,935
Other	70,526	61,925
Araminta	1,163	1,163
Beyond Capernaum	23,181	20,196
CareNet	14,310	34,120
Christ Nourishes	(27)	1,158
Grace Rising	3,175,396	3,257,763
GraceXtensions	(3,932)	10,579
Kardia Min	25,892	33,900
The Meadow	<u>5,449</u>	<u>47,855</u>
TOTAL	<u>\$ 3,358,627</u>	<u>\$ 3,497,594</u>

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

Note 4: Lease Agreements

The Organization entered into a five (5) year non-cancelable operating lease for its Timonium facility effective May 6, 1999. The lease had two (2) additional five (5) year options to renew. In May 2014, the Organization renewed the lease for another five (5) years ending July 2019. The future minimum lease payments are as follows:

For the Years Ending June 30,

2016	\$ 742,563
2017	764,840
2018	787,785
2019	<u>811,419</u>
 TOTAL	 <u>\$ 3,106,607</u>

Rent expense for the years ended June 30, 2015 and 2014 amounted to \$684,255 and \$703,175, respectively, and is included in facility and equipment on the consolidated statements of functional expenses.

Note 5: Unrelated Business Income

The Organization receives unrelated business income from the rental of the facility. The revenue generated from this rental activity amounted to \$28,905 and \$27,073 for the years ended June 30, 2015 and 2014, respectively.

Note 6: Functional Allocation of Expense

The costs of providing various programs have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 7: Employee Benefit Plan

The Organization has a defined contribution salary deferral plan covering substantially all employees. For the years ended June 30, 2015 and 2014, the Organization contributed two and one-half percent (2.5%) of employee salary. The total expense for the years ended June 30, 2015 and 2014 was \$25,589 and \$24,816, respectively.

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

Note 8: Capital Leases

The Company leases assets under the terms of a capital lease which matures in 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2015 and 2014. The following is a summary of property held under capital leases:

	2015	2014
Equipment	\$ 109,195	\$ 109,195
Less: Accumulated Depreciation	(39,398)	(14,559)
TOTAL	\$ 69,797	\$ 94,636

Future minimum lease payments under capital leases is as follows:

For the Years Ending June 30,

2016	\$ 24,132
2017	24,132
2018	24,132
2019	8,044
Total	80,440
Less: Amount Representing Interest	5,250
Total	75,190
Less: Current Maturities of Long-Term Obligations Under Capital Lease	21,516
LONG-TERM OBLIGATIONS UNDER CAPITAL LEASE	\$ 53,674

GRACE FELLOWSHIP CHURCH, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

Note 9: Due from Shrewsbury

The Organization and Shrewsbury informally agreed that Shrewsbury would pay the Organization \$467,610 in future years. This amount is unsecured and bears no interest. Repayment is scheduled for a five (5) year period. During the years ended June 30, 2015 and 2014, the Organization received \$75,000 and \$125,000, respectively. As of June 30, 2015 and 2014, the outstanding balance of \$167,610 and \$242,610, respectively, is presented as a non-current asset because of the lack of formal repayment terms.

The Organization also advanced an additional \$50,000 to Shrewsbury to aid in starting up their operations as a separate entity. During the year ended June 30, 2015, the \$50,000 was repaid.

Note 10: Land Deposit

During the year ended June 30, 2015, the Wooded Acres, LLC made a deposit to purchase a parcel of land for future development in the amount of \$300,000. The total purchase of the land is \$1,600,000.