EMMANUEL GOSPEL CENTER, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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Bernard, Johnson & Company, P.C.
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Emmanuel Gospel Center, Inc.:

We have audited the accompanying statements of financial position of Emmanuel Gospel Center, Inc. (a Massachusetts not for profit organization) as of June 30, 2010, and the related statements of activities, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Emmanuel Gospel Center, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Emmanuel Gospel Center, Inc.'s 2009 financial statements and, in our report dated August 20, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emmanuel Gospel Center, Inc. as of June 30, 2010, and its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Bernard Johnson + Company PC

Topsfield, Massachusetts
July 29, 2010

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EMMANUEL GOSPEL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 266,896	$ 277,404
Current portion of pledges receivable	100,000	100,000
Accounts receivable	18,744	5,002
Prepaid expenses and other	15,445	15,218
Total current assets	401,085	397,624
PROPERTY AND EQUIPMENT, net	1,002,535	1,072,999
OTHER ASSETS:		
Pledges receivable, net of current portion	-	95,200
Investments ($80,627 and $71,002 for 2010 and 2009, respectively, restricted for use)	161,248	137,978
Deferred financing costs, net	8,482	8,836
Total other assets	169,730	242,014
	$ 1,573,350	$ 1,712,637
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of mortgage note payable	$ 10,116	$ 8,131
Current portion of capital lease obligation	7,269	5,843
Accounts payable	26,269	23,655
Accrued expenses	87,723	44,347
Total current liabilities	131,377	81,976
LONG TERM DEBT:		
Mortgage note payable, net of current portion	441,776	452,151
Capital lease obligation, net of current portion	6,686	13,516
Total liabilities	579,839	547,643
NET ASSETS:		
Unrestricted	522,602	648,212
Temporarily restricted	399,907	445,780
Permanently restricted	71,002	71,002
Total net assets	993,511	1,164,994
	$ 1,573,350	$ 1,712,637

The accompanying notes are an integral part of these financial statements.

EMMANUEL GOSPEL CENTER, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Unrestricted	Temporarily Restricted	2010	2009
OPERATING SUPPORT:				
Individual support	$ 220,209	$ 226,079	$ 446,288	$ 479,131
Churches and organizational support	68,429	268,964	337,393	397,492
Grants	38,525	705,169	743,694	845,868
Total support	327,163	1,200,212	1,527,375	1,722,491
REVENUE:				
Program fees and rentals	76,529	64,489	141,018	155,301
Special event	-	24,154	24,154	-
Interest and dividends	3,658	3,261	6,919	5,684
Unrealized and realized gains (losses) on investments	12,663	7,647	20,310	(22,183)
Total revenue	92,850	99,551	192,401	138,802
Net assets released from restrictions/ satisfaction of restrictions	1,345,636	(1,345,636)	-	-
Total operating support and revenue	1,765,649	(45,873)	1,719,776	1,861,293
OPERATING EXPENSES:				
Program expenses	1,290,303		1,290,303	1,362,780
Support services:				
General and administrative	455,598	-	455,598	425,172
Fundraising	145,358	-	145,358	148,916
Total support services	600,956	-	600,956	574,088
Total expenses	1,891,259	-	1,891,259	1,936,868
CHANGES IN NET ASSETS	$ (125,610)	$ (45,873)	$ (171,483)	$ (75,575)

The accompanying notes are an integral part of these financial statements.

EMMANUEL GOSPEL CENTER, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
NET ASSETS, beginning of year	$ 648,212	$ 445,780	$ 71,002	$ 1,164,994	$ 1,240,569
Changes in net assets	(125,610)	(45,873)	-	(171,483)	(75,575)
NET ASSETS, end of year	$ 522,602	$ 399,907	$ 71,002	$ 993,511	$ 1,164,994

The accompanying notes are an integral part of these financial statements.

EMMANUEL GOSPEL CENTER, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (171,483)	$ (75,575)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	70,818	72,580
Book value of equipment donated	-	4,437
(Gain) loss on investments	(23,270)	20,725
Cash provided by (used in) changes in:		
Pledges receivable	95,200	76,768
Accounts receivable	(13,742)	6,844
Prepaid expenses and other	(227)	8,428
Accounts payable	2,614	4,975
Accrued expenses	43,376	7,406
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,286	126,588
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	-	(1,360)
NET CASH USED IN INVESTING ACTIVITIES	-	(1,360)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgage note payable	(8,390)	(7,640)
Principal payments on capital lease obligation	(5,404)	(5,135)
NET CASH USED IN FINANCING ACTIVITIES	(13,794)	(12,775)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,508)	112,453
CASH AND CASH EQUIVALENTS, beginning of year	277,404	164,951
CASH AND CASH EQUIVALENTS, end of year	$ 266,896	$ 277,404
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Disposal of fully depreciated property and equipment	$ 13,002	$ 176,923
Cash paid during the year for interest	$ 30,557	$ 34,127

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Founded in 1938, the Emmanuel Gospel Center (the "Center" or "EGC") is a Christian ministry serving urban churches and communities in Greater Boston and beyond. Through applied research, consulting, and programs, EGC works with many partners to nurture the vitality of urban churches as they support and care for the spiritual and physical needs of all people in the city, especially those who are marginalized or underserved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Management's Review - In preparing these financial statements, EGC has evaluated events and transactions for potential recognition or disclosure through July 29, 2010, the date the financial statements were available to be issued.

b. Standards of Accounting and Reporting – EGC follows standards of accounting and financial reporting as described in the American Institute of Certified Public Accountants' Audit and Accounting Guide for "Not-for-Profit Organizations."

c. Summarized Comparative Financial Statements - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with EGC's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

d. Financial Statement Presentation – The financial statements report amounts separately by class of funds or net assets.

Unrestricted – Net assets consist of assets, public support, and program revenues which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted – Net assets include funds with donor-imposed restrictions which stipulate that the organization expend the assets as specified and are satisfied either by the passage of time or by actions of EGC. Resources of this nature originate from gifts, grants, bequests, contracts, and investment income from restricted assets.

Permanently Restricted – Net assets include resources having a permanent donor-imposed restriction stipulating the assets are to be maintained permanently, but permits EGC to expend part or all of the income derived from the donated assets.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e. Use of Estimates - The presentation of 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 disclosures 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.

f. Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and highly liquid investments with an initial maturity of three months or less. EGC maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. EGC has not experienced any losses in such accounts. EGC believes it is not exposed to any significant credit risk on cash and cash equivalents.

g. Accounts Receivable – Accounts receivable are carried at original invoice amount. EGC provides an allowance for doubtful accounts equal to estimated bad debt losses. In determining this allowance, objective evidence that a single receivable is uncollectible as well as a historical pattern of collections of account receivable may not be collectible is considered at each balance sheet date.

h. EGC follows FASB ASC 820, *Fair Value Measurements*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. Under FASB ASC 820, fair value refers to the price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, FASB ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under FASB ASC 820, fair value measurements are separately disclosed by level within the fair value hierarchy.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I: Quoted prices are available in active markets for identical investments as of the reporting date.

Level II: Pricing inputs are other than quoted prices in active markets of comparable investments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

All EGC investments include listed equity or debt instruments which are publicly traded, and whose fair value is therefore classified and disclosed as Level I. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The Board has interpreted Massachusetts General Law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a restricted net asset classification until appropriated by the Board and expended. Massachusetts General Law allows the Board to appropriate as much of net appreciation of permanently restricted net assets as is prudent considering the Center's long and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. In the absence of evidence to the contrary, Chapter 180A (the "Uniform Management of Institutional Funds") of the Commonwealth of Massachusetts General Law ("Chapter 180A") defines prudent as expending realized and unrealized gains up to 7% of such assets.

i. Property and Equipment - Property and equipment acquisitions are recorded at cost. Depreciation of property and equipment is provided over the estimated useful life of the respective assets on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	20-40 years
Furniture and fixtures	5-10 years
Equipment	3-5 years

Purchases of property and equipment in excess of $2,500 are capitalized.

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Amortization expense on assets acquired under capital leases is included with depreciation expense.

j. Impairment of Long-Lived Assets – The Center has given consideration to the Financial Accounting Standards Board ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets* in its presentation of these financial statements. As of June 30, 2010, the Center has not recognized any reduction in the carrying value of its property when considering FASB ASC 360.

k. Financing Costs – Financing costs are capitalized and amortized over the life of the related mortgage note payable using the straight-line method.

l. Revenue Recognition – Program fees, rentals and grants are recognized when services are rendered or costs are incurred.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m. Rental Revenues – EGC rents a portion of its facilities to various church groups and individuals that occupy the facilities as tenants-at-will.

n. Contributions and Support – Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed restrictions are reported as revenues of the temporarily restricted net asset class when received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met. Contributions received with donor-imposed restrictions that are met in the same year as received may be reported as revenues of the unrestricted net asset class.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class, and the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the services received only if the services create or enhance a non-financial asset or would typically need to be purchased by EGC if they had not been provided by the individuals with those skills. Contributions of goods to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods are received.

o. Advertising – EGC expenses advertising costs as incurred. Advertising costs were $2,822 and $1,735 for the years ended June 30, 2010 and 2009, respectively. Advertising costs are included as a component of program expenses within the accompanying Statement of Activities.

p. Income Taxes – EGC is classified as a tax-exempt religious organization under Internal Revenue Code Section 170(b)(1)(A)(i), and accordingly, is not required to file income tax returns. Donors may deduct contributions made to EGC within the Internal Revenue Code regulations.

q. Functional Allocation of Expenses – EGC allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification.

3. PLEDGES RECEIVABLE

During the year ended June 30, 2006 a pledge of $500,000 payable over 5 years was made to EGC. The 5-year U.S. Treasury rate for government bonds at June 30, 2006 (5.07%) was used to discount the pledge to present value. Grant income of $4,800 and $23,232 has been recognized from the amortization of the discount using the effective interest method for the years ended June 30, 2010 and 2009, respectively. The pledge receivable amount was $100,000 as of June 30, 2010.

4. INVESTMENTS RESTRICTED TO USE

EGC is the sole income beneficiary of the Leta and Stewart Gray Trust (the "Trust"). The principal of the Trust, $71,002, shall remain intact and all income of the Trust shall be paid to EGC. The sole purpose of the Trust is to provide financial assistance to the EGC and its employees in carrying out its mission.

EGC's Executive Committee may, at its sole discretion, alter or change the allocation of income received, but only within the general area of supplemental staff benefits and excluding capital items. Upon approval of the Executive Committee, a portion of the Trust's capital appreciation may be transferred for use in accordance with trust provisions, provided that this amount combined with income transferred, does not exceed 7% of the value of the trust assets. In the event that EGC is dissolved, the principal and all earnings of the Trust shall be transferred to Vision New England, Inc.

Fair value measurement was determined using Level I inputs and, as of June 30, 2010 and 2009, Trust investments consist of the following:

	2010		2009	
	Market	Cost	Market	Cost
Fixed income securities	$ 81,904	$ 67,697	$ 61,289	$ 55,711
Equity securities	68,810	55,560	63,806	62,238
Cash equivalents	10,534	10,534	12,883	12,883
	$ 161,248	$ 133,791	$ 137,978	$ 130,832

Unrealized gains (losses) attributable to the years ended June 30, 2010 and 2009 were $20,310 and ($22,183), respectively. Investment income from dividends, interest and capital gain distributions amounted to $6,919 and $5,684 for the years ended June 30, 2010 and 2009, respectively.

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5. PROPERTY AND EQUIPMENT

At June 30, 2010 and 2009, property and equipment consists of the following:

	2010	2009
Land	$ 6,300	$ 6,300
Buildings and building improvements	1,661,807	1,661,807
Furniture and fixtures	30,065	30,065
Equipment	179,222	192,224
Subtotal property and equipment	1,877,394	1,890,396
Less: accumulated depreciation	874,859	817,397
Net property and equipment	$ 1,002,535	$ 1,072,999

Depreciation for the years ended June 30, 2010 and 2009 was $70,464 and $72,226, respectively.

6. MORTGAGE NOTE PAYABLE

At June 30, 2010 and 2009, mortgage note payable consists of the following:

	2010	2009
Mortgage note payable to a bank in monthly installments of $2,811 through February 12, 2034, including interest at 5.28% (adjusted every three years) and secured by a first mortgage on the property located at 379 Shawmut Avenue, Boston, MA	$451,892	$460,282
Less: current portion	10,116	8,131
Mortgage note payable - net of current portion	$441,776	$452,151

Principal repayments of the mortgage note for the next five years are as follows:

Year Ending June 30,	
2011	$ 10,116
2012	10,664
2013	11,241
2014	11,849
2015	12,490
Thereafter	395,532
	$451,892

(Continued)

7. CAPITAL LEASE OBLIGATION

EGC leases office equipment under a capital lease agreement. Payments are due in monthly installments of $787 including interest at 22% through February, 2012. Future minimum lease payments as of June 30 are as follows:

2011	$ 7,269
2012	6,686
	$ 13,955

8. LINE OF CREDIT AGREEMENT

EGC has an available $50,000 revolving line of credit agreement with a bank. Borrowings are due on demand and interest is payable monthly and determined at the time the draws on the line occur. As of June 30, 2010, there were no amounts outstanding under this facility. The line has no expiration date and is secured by the Trust investments.

9. DEFINED CONTRIBUTION RETIREMENT PLAN

EGC offers a 403(b) retirement plan to its eligible employees. Participants may make voluntary salary deferrals to the plan up to the maximum amount allowed by the Internal Revenue Code. Through June 30, 2010, EGC contributed a non-matching 4% to the employees' gross wages, and gave employees the option of an increase in wages or a retirement plan contribution. For the years ended June 30, 2010 and 2009 EGC contributed $18,832 and $16,304 to the plan. Beginning July 1, 2010, the 4% is available solely as a retirement plan contribution.

10. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, temporarily restricted net assets consist of the following:

	2010	2009
Fiscal Conduits	$ 170,447	$ 298,333
Starlight Ministries	81,343	-
Applied Evaluation Systems	43,348	-
Haitian Ministries	27,182	12,956
NeXus	24,022	42,331
BEC	21,858	47,887
Vitality project	13,437	29,689
Unrealized gain on trust investments	9,625	-
Dinner Tithes	6,115	4,909
CUME copies	835	100
Gr. Bos. Ch. Planting Coll.	717	778
Telores	471	-
Hall Trips	271	191
Community Development - BASIC	236	-
Intercultural Ministries	-	8,606
	$ 399,907	$ 445,780

(Continued)

11. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, permanently restricted net assets consist of EGC's interest in the original principal of the Leta and Stewart Gray Trust (see Note 4).

12. RESTATEMENT OF NET ASSETS

During the year ended June 30, 2009, EGC determined the 2008 temporarily restricted net asset balance was overstated for amounts that should have been released for program-related costs. The effect of this adjustment increased beginning unrestricted net assets and decreased beginning temporarily restricted net assets by $134,990, respectively.

13. CONCENTRATIONS OF CREDIT RISK

EGC maintains cash balances in various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution. A portion of cash balances may exceed insured limits from time to time. EGC monitors the condition of the financial institutions in which it invests.

The investment portfolio has a fair market value at June 30, 2010 and 2009 of $161,248 and $137,978, representing 10% and 8% of EGC's total asset base, respectively. The fair market value of these investments is not federal-insured and is subject to market fluctuation.

14. RECLASSIFICATION

Certain amounts in the 2009 comparative information have been reclassified to conform to the 2010 presentation.