

GRACEWORKS MINISTRIES, INC.

JUNE 30, 2011

Report
of
Examination

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INDEPENDENT AUDITOR'S REPORT

January 11, 2012

Board of Directors
Graceworks Ministries, Inc.
Franklin, Tennessee

We have audited the accompanying statements of financial position of Graceworks Ministries, Inc. (a nonprofit organization) as of June 30, 2011 and the related statements of activities, functional expenses, and cash flows for the six months then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 provide 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 Graceworks Ministries, Inc. as of June 30, 2011, and the results of its operations and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

Parsons and Associates
Parsons and Associates

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Cash in bank and on hand	\$ 246,774
Inventory	124,069
Investment account	0
Prepaid expenses	5,224
Furniture and vehicles - net of depreciation	<u>38,985</u>
<u>Total Assets</u>	<u>\$ 415,052</u>

LIABILITIES

Accounts payable	\$ 3,310
Accrued wages	2,070
Payroll tax liabilities	1,444
Sales tax payable	2,045
Note payable - copier	<u>7,765</u>
<u>Total Liabilities</u>	<u>16,634</u>

NET ASSETS

Unrestricted Net Assets:	
Undesignated	247,458
Board designated	<u>150,960</u>
<u>Total Unrestricted Net Assets</u>	<u>398,418</u>
 <u>Total Liabilities and Net Assets</u>	 <u>\$ 415,052</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES
SIX MONTHS ENDED JUNE 30, 2011

	<u>Unrestricted</u>
<u>Support and Revenue</u>	
Contributions`	\$ 141,037
Government	32,728
Sales - Graceworks Store	199,697
Food pantry	277,165
Special Events	48,546
Investment income	269
Other	430
<u>Total Support and Revenue</u>	<u>699,872</u>
 <u>Expenses</u>	
Program	684,283
Management	37,710
Fundraising	30,204
<u>Total Expenses</u>	<u>752,197</u>
 Change in Net Assets	(52,325)
 Net Assets - January 1, 2011	450,743
 Net Assets - June 30, 2011	\$ <u>398,418</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
SIX MONTHS ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Assistance programs	\$ 386,839	\$	\$	\$ 386,839
Meals on Wheels donation	900			900
Printing	1,593		4,777	6,370
Salaries and wages	170,149	14,179	4,726	189,054
Payroll taxes	16,577	1,381	461	18,419
Rent	48,819	2,712	2,712	54,243
Telephone and utilities	18,110	1,006	1,006	20,122
Office supplies and equipment	2,146	119	119	2,384
Insurance	9,986	694		10,680
Advertising	223	283	169	675
Vehicle expense	1,039			1,039
Store expense/maintenance	5,666			5,666
Repairs and maintenance	3,406	1,135	1,135	5,676
Fundraising expense			14,456	14,456
Professional fees		4,431		4,431
Mileage	3,295			3,295
Employee benefits	1,027	86	28	1,141
Contract labor		9,473		9,473
Continuing education	807	346		1,153
Dues and subscriptions		428		428
Taxes and licenses		821		821
Bank charges	4,182			4,182
Postage	470	470	470	1,410
Disaster relief expense	141			141
Copier supplies/usage	291	146	145	582
Other	1,396			1,396
Depreciation	7,221			7,221
<u>Total</u>	<u>\$ 684,283</u>	<u>\$ 37,710</u>	<u>\$ 30,204</u>	<u>\$ 752,197</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011

<u>Cash flows from operating activities</u>	
Cash received from contributors and grants	\$ 173,765
Cash received from store sales	208,321
Cash received from other sources	49,245
Cash paid for assistance programs	(109,672)
Cash paid for salaries and related expenses	(206,993)
Cash paid for rent	(45,134)
Cash paid for other program services	(53,439)
Cash paid for other management and general expenses	(19,344)
Cash paid for other fundraising expenses	(23,914)
Net cash provided (used) by operating activities	(27,165)
<u>Cash flow from financing activities</u>	
Purchase of equipment	<u>0</u>
<u>Cash flow from investing activities</u>	
Payments on loan	(2,456)
Investment account disbursement	<u>8,550</u>
Net cash provided (used) by investing activities	<u>6,094</u>
Net increase (decrease) in cash and cash equivalents	(21,071)
Cash and cash equivalents - January 1, 2011	267,845
Cash and cash equivalents - June 30, 2011	\$ <u>246,774</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Graceworks Ministries, Inc. was incorporated in 1994, under the Tennessee Nonprofit Corporation Act. Its purpose is to coordinate certain humanitarian and outreach activities of member Churches and Agencies and is dedicated to sharing the hope and grace of God by helping neighbors in need. The Organization is supported primarily through donor contributions and grants.

Basis of Accounting

The financial statements of Graceworks Ministries, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets at June 30, 2011.

Permanently Restricted Net Assets

Net assets subject to imposed stipulations that they be maintained permanently by the Organization. Generally, these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2011.

Income Tax Status

Graceworks Ministries, Inc. qualifies as a tax exempt organization under Internal Revenue Section 501(c)(3) as a publicly supported organization and, therefore, has no provision for federal income taxes. The organization has been classified as an organization that is not a private foundation.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2011

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Donated Property

Donations of property and goods are recorded as contributions at their estimated fair value at the date of donation. The Organization operates a food pantry and thrift store as part of its mission.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which ranges from five to ten years.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of one year or less to be cash equivalents.

Designation of Unrestricted Net Assets

The Board has set aside funds for future needs of the Organization.. Board approval is required for disbursements from the designated funds.

Undesignated	\$ 247,458
Board designated	<u>150,960</u>
	\$ <u>398,418</u>

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2011

NOTE 2 - INVENTORY

A thrift store is operated by the Organization as a means of raising funds for its program services. Items sold at the store have been donated by various members of the community. The fair market value is estimated using subsequent sales as suggested by SFAS No. 116.

NOTE 3 - DONATED ASSETS

The Organization records donations of securities and other noncash assets at their estimated fair value at the date of donations.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

Office equipment	\$ 97,987
Leasehold improvements	12,427
Vehicles	<u>40,528</u>
	150,942
Accumulated depreciation	<u>(111,957)</u>
	\$ <u>38,985</u>

NOTE 5 - OPERATING LEASES

The Organization leases its office, showroom and warehouse at 104 Southeast Parkway from Glass Properties for \$9,109 per month. In May 2011, the organization will lease additional space on a month to month basis for \$500 per month. The current lease has been extended through October 2011.

July - October 2011 \$ 36,435

NOTE 6 - CHANGE IN ACCOUNTING PERIOD

The Organization has elected to change its fiscal year end from December 31 to June 30. The change was effective as of June 30, 2011 and resulted in a reporting period that contains six months.