

2017
Financial Statements
With
Auditor's Letters

GRACEWORKS MINISTRIES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

(With Independent Auditor's Report Thereon)

GRACEWORKS MINISTRIES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2017

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Audited Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of GraceWorks Ministries, Inc.

We have audited the accompanying financial statements of GraceWorks Ministries, Inc. (a nonprofit Organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

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 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 GraceWorks Ministries, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Patterson Hardee & Ballentine

November 13, 2017

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current Assets:		
Cash	\$ 318,029	
Accounts receivable	4,000	
Inventory	439,903	
Prepaid expenses	7,261	
Total current assets		\$ 769,193
Property and Equipment:		
Vehicles	116,887	
Property and equipment	112,057	
Leasehold improvements	36,397	
	265,341	
Less: accumulated depreciation	(156,888)	
Total property and equipment, net		108,453
Assets Whose Use is Limited:		
Cash	131,787	
Cash - endowment	565,644	
Total assets whose use is limited		697,431
Total assets		<u>\$ 1,575,077</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 27,673	
Payroll liabilities	14,016	
Sales tax payable	3,407	
Unearned revenue	37,210	
Total current liabilities		<u>\$ 82,306</u>
Total liabilities		<u>82,306</u>
Net Assets:		
Unrestricted:		
Undesignated	795,340	
Board designated - client services	75,626	
Board designated - building improvements	16,632	
Board designated - endowment	2,206	
Total unrestricted net assets		889,804
Restricted Net Assets:		
Temporarily restricted	39,529	
Permanently restricted	563,438	
Total restricted net assets		<u>602,967</u>
Total net assets		<u>1,492,771</u>
Total liabilities and net assets		<u>\$ 1,575,077</u>

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue:				
Store income	\$ 936,618	\$ -	\$ -	\$ 936,618
Business donations	118,923	-	-	118,923
Investment income, net	2,843	-	-	2,843
Fundraising	531,105	-	-	531,105
In-kind donation	2,260,503	-	-	2,260,503
Grants	208,216	24,500	-	232,716
Individual contributions	430,339	10,891	735	441,965
Endowment income	-	-	4,804	4,804
Church contributions	230,968	-	-	230,968
Net assets released from temporarily restricted	<u>23,352</u>	<u>(23,352)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>4,742,867</u>	<u>12,039</u>	<u>5,539</u>	<u>4,760,445</u>
Expenses:				
Program services				
Family support	1,027,592	-	-	1,027,592
Instructional programs	167,375	-	-	167,375
Seasonal needs	709,674	-	-	709,674
Hunger prevention	<u>2,239,214</u>	<u>-</u>	<u>-</u>	<u>2,239,214</u>
Total program services	<u>4,143,855</u>	<u>-</u>	<u>-</u>	<u>4,143,855</u>
Supporting Services				
Management and general	266,498	-	-	266,498
Fundraising & special events	<u>345,548</u>	<u>-</u>	<u>-</u>	<u>345,548</u>
Total supporting services	<u>612,046</u>	<u>-</u>	<u>-</u>	<u>612,046</u>
Total expenses	<u>4,755,901</u>	<u>-</u>	<u>-</u>	<u>4,755,901</u>
Increase (decrease) in net assets	(13,034)	12,039	5,539	4,544
Net assets - beginning of year	<u>902,838</u>	<u>27,490</u>	<u>557,899</u>	<u>1,488,227</u>
Net assets - end of year	<u>\$ 889,804</u>	<u>\$ 39,529</u>	<u>\$ 563,438</u>	<u>\$ 1,492,771</u>

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services			Total
	Family Support	Instructional Programs	Seasonal Needs	Hunger Prevention	Total Program	Management and General	Fundraising & Special Events	
Salaries	\$ 110,074	\$ 40,988	\$ 92,501	\$ 250,845	\$ 494,408	\$ 163,752	\$ 136,136	\$ 794,296
Payroll taxes and benefits	13,235	4,658	11,591	34,191	63,675	27,903	18,847	110,425
Total payroll and related expenses	123,309	45,646	104,092	285,036	558,083	191,655	154,983	904,721
Advertising	-	-	-	-	-	-	4,245	4,245
Bad debt expense	-	-	-	-	-	-	15	15
Client services	766,414	91,118	531,589	1,788,344	3,177,465	-	-	3,177,465
Continuing education, memberships, and volunteer	-	-	-	-	-	1,879	1,130	3,009
Depreciation and amortization	9,666	967	2,900	5,800	19,333	1,074	1,074	21,481
Dues and subscriptions	8	1	3	5	17	17	311	345
Fundraising	-	-	-	-	-	-	99,208	99,208
General & IT repairs and maintenance	7,090	2,659	5,909	13,886	29,544	5,354	5,354	40,252
General administration expenses	9,445	944	2,833	5,666	18,888	1,265	2,486	22,639
In-kind expenses	-	-	-	-	-	18,601	23,500	42,101
Insurance	19,985	1,998	5,995	11,990	39,968	8,565	8,565	57,098
Licenses and fees	1,711	171	513	1,027	3,422	3,558	4,681	11,661
Merchant and bank fees	16,504	1,650	4,951	9,903	33,008	2,266	7,233	42,507
Mileage and expense reimbursement	7,589	759	2,277	4,554	15,179	3,384	4,304	22,867
Miscellaneous	385	39	116	232	772	-	-	772
Office supplies	2,075	207	622	1,245	4,149	1,660	2,490	8,299
Postage and freight	965	96	289	579	1,929	1,928	5,785	9,642
Printing	325	32	97	195	649	648	3,025	4,322
Professional services	-	-	-	-	-	10,926	-	10,926
Property taxes	3,819	382	1,146	2,291	7,638	849	-	8,487
Rent	41,801	15,675	34,834	81,859	174,169	6,676	8,902	189,747
Store supplies	4,205	420	1,261	2,522	8,408	-	-	8,408
Utilities	12,296	4,611	10,247	24,080	51,234	6,193	8,257	65,684
	<u>\$ 1,027,592</u>	<u>\$ 167,375</u>	<u>\$ 709,674</u>	<u>\$ 2,239,214</u>	<u>\$ 4,143,855</u>	<u>\$ 266,498</u>	<u>\$ 345,548</u>	<u>\$ 4,755,901</u>

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash Flows From Operating Activities:		
Increase in net assets		\$ 4,544
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 21,481	
Changes in:		
Accounts receivable	(4,000)	
Inventory	(55,951)	
Prepaid expenses	(644)	
Assets whose use is limited	14,447	
Accounts payable	(5,626)	
Payroll liabilities	362	
Sales tax payable	(321)	
Unearned revenue	37,210	
Total adjustments		<u>6,958</u>
Net cash provided by operating activities		<u>11,502</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	<u>(8,357)</u>	
Net cash used in investing activities		<u>(8,357)</u>
Net increase in cash		3,145
Cash - beginning of year		<u>314,884</u>
Cash - end of year		<u>\$ 318,029</u>

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities and Program Description

In these notes, the terms “we”, “us” or “our” mean GraceWorks Ministries, Inc. We are a nonprofit organization dedicated to sharing the hope and grace of God by helping our neighbors in need united by a common loyalty to Jesus Christ.

GraceWorks Thrift Store

We believe that everyone should have the ability to purchase high-quality used goods such as clothing, furniture and household items at affordable prices. Our thrift stores are open to the public. All merchandise sold is donated, including many new items, and the sales help support our mission.

Program Services

The following program services are included in the accompanying financial statements:

Family Support - Helping neighbors in emergency situations with life necessities.

Instructional Programs - Educating neighbors in financial independence, nutrition, and family guidance.

Seasonal Needs - Helping neighbors through the Manger Christmas gift program, backpacks and supplies, and holiday food boxes.

Hunger Prevention - Providing food items to under privileged families, weekend nutrition for school children, and mobile food pantries.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may, or will, be met by our actions 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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with an original maturity date of ninety days or less from the date of issuance to be a cash equivalent. At June 30, 2017, we had no cash equivalents.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of donated clothing, furniture, and household items. Inventory is recorded at the fair market value of subsequent sales.

Contributions Receivable

Contributions are recognized when the donor makes a promise to give to us that is, in substance, unconditional. Unconditional promises to give are recorded as temporarily restricted revenue in the year the promise is made and released from restriction in the year received.

Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

We use the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on our analysis of specific promises made. At June 30, 2017, no allowance is considered necessary.

Property and Equipment

Property and equipment is recorded at cost, or, if donated, at the estimated fair market value at the date of donation. If equipment is donated, the donor can stipulate how long the assets must be used, and the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Our capitalization policy is to capitalize any expenditure over \$1,000 for property and equipment. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged to expense as incurred.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributed Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. We receive many contributed services for our outreach programs. These services meet the requirements for recognition in the financial statements and have been recorded or reflected in the accompanying financial statements.

Compensated Absences

Full time employees are defined as those working 30 hours or more per week. Paid time off is calculated based on each employee's regularly scheduled hours per week and is granted 90 days after hire date. If the employees don't use their paid time off by June 30, 2017, they will lose the time and will not be compensated for it. Effective July 1, 2017, an employee may elect to carry over up to 40 hours of paid time off at the end of the fiscal year into the new year.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising is expensed as incurred. Total advertising expense for the year ended June 30, 2017, was \$4,245.

Income Taxes

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying consolidated financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The fair values of current assets, current liabilities, and restricted cash approximate the carrying values due to the short maturities of these instruments and they are all Level 1 in the fair value hierarchy.

NOTE 2 - Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, and various grant, contract and contributions receivable. Grant, contract and contributions receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Three vendors represent 100% of our total accounts payable at June 30, 2017. One donor represents 100% of total accounts receivable at June 30, 2017.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe this exposes us to any significant credit risk on our cash.

NOTE 3 - Leases

We leased two copiers under operating leases during the year end June 30, 2017. The minimum monthly rental amount is \$360 for both copiers. Additional amounts due under the lease are based on the number of copies made during the billing period. We currently lease the warehouse where our Franklin store is located for a monthly cost of \$12,000 and the administration building adjacent to the warehouse for a monthly cost of \$1,000. We also currently lease the building at our Fairview location for \$3,533 per month. The total yearly rent expense was \$194,989 for the year ended June 30, 2017, which includes \$5,242 for the copiers that is in the General & IT repairs and maintenance line on the statement of functional expenses.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Leases (continued)

A schedule of future minimum lease payments required under all non-cancelable operating leases as of June 30, 2017, is as follows:

<u>Year Ending June 30,</u>	
2018	\$ 190,716
2019	158,919
2020	148,320
2021	<u>3,600</u>
	<u>\$ 501,555</u>

NOTE 4 - Unrestricted Net Assets

Board-designated net assets are available for the following purposes:

Client Services - This account is intended to provide funds necessary for the different programs.

Building Improvements - This account is intended to provide funds necessary for building improvements.

Endowment - This account is intended to hold the excess realized annual income and the required excess 10% of the market value of the corpus that is to remain with the endowment at all times per the investment policy. As of June 30, 2017, the 10% excess has not been met so all of the realized annual income was restricted for that purpose.

A summary of board designated net assets at June 30, 2017, is as follows:

Client Services	\$ 75,626
Building Improvements	16,632
Endowment 10% excess (\$56,344 required per investment policy)	<u>2,206</u>
	<u>\$ 94,464</u>

NOTE 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2017:

Restricted for building improvements	\$ 27,490
Restricted for fuel bags and backpacks	1,148
Restricted for client services	<u>10,891</u>
	<u>\$ 39,529</u>

NOTE 6 - Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30, 2017:

Endowment funds	<u>\$ 563,438</u>
-----------------	-------------------

As of June 30, 2017, the funds are held in a standard savings account. See NOTE 7.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 - Endowment Funds

Our endowment consists of funds established by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. Our permanently restricted endowment funds are based on the spending policies described below which follow the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA).

Financial accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. Financial accounting standards also require additional disclosures about our endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not we are subject to UPMIFA.

Interpretation of applicable law - The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, we classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending policy – we have a policy of appropriating for distribution each year a maximum payout up to the total earnings from the funds in excess of the 10% board designated earnings that must be restricted as part of the corpus. Funds released for this purpose for the year ended June 30, 2017, were \$0.

Investment return objective, risk parameters and strategies – the objective of our endowment portfolio is a balanced approach between equities and fixed income. The investment horizon is long-term and balances the need for income and growth. The portfolio allows up to 60% investment in equities and up to 40% investment in fixed income.

At June 30, 2017, our endowment funds were held in a standard savings account.

A schedule of endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	<u>Unrestricted (Deficit)</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ -	\$ -	\$ 563,438	\$ 563,438

NOTE 8 - Contingencies

From time to time, we may be and have been named as a defendant in a lawsuit. There are no outstanding lawsuits at June 30, 2017. We do not believe an accrual is necessary at June 30, 2017.

NOTE 9 - New Pronouncements

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - New Pronouncements (continued)

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2019, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update provides guidance about the presentation of financial statements for non-profit organizations. The amendments in this Update are effective for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this statement.

In November 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of adopting this guidance on the financial statements.

NOTE 10 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2017. As of November 13, 2017, the date that the financial statements were available to be issued, we are not aware of any material subsequent events, other than those noted below, which would require recognition or disclosure in the accompanying financial statements for the year ended June 30, 2017.

In August of 2017, an unrestricted donation was received in the amount of \$216,893.