

GRACEWORKS MINISTRIES, INC.

DECEMBER 31, 2010 AND 2009

Report
of
Examination

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INDEPENDENT AUDITOR'S REPORT

June 15, 2011

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 December 31, 2010 and 2009 and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 audits 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 December 31, 2010 and 2009, and the results of its operations and its cash flows for the years 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
DECEMBER 31

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$ 267,845	\$ 148,007
Inventory	132,740	110,550
Investment account	8,550	8,657
Prepaid expenses	12,187	4,748
Furniture and vehicles - net of depreciation	46,205	33,568
<u>Total Assets</u>	\$ <u>467,527</u>	\$ <u>305,530</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 2,579	\$ 9,379
Accrued wages	884	0
Payroll tax liabilities	1,009	0
Sales tax payable	2,091	2,442
Note payable - copier	10,221	0
<u>Total Liabilities</u>	<u>16,784</u>	<u>11,821</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	450,743	153,965
Designated	0	139,744
<u>Total Unrestricted Net Assets</u>	<u>450,743</u>	<u>293,709</u>
<u>Total Liabilities and Net Assets</u>	\$ <u>467,527</u>	\$ <u>305,530</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31

	<u>Unrestricted</u>	
	<u>2010</u>	<u>2009</u>
<u>Support and Revenue</u>		
Contributions	\$ 391,542	\$ 426,470
Contributions - disaster relief	124,191	0
Government	31,439	32,242
Sales - Graceworks Store	440,122	454,547
Food pantry	438,230	466,400
In-kind donations	23,274	62,000
Special Events	78,239	90,268
Investment income	61	30
Other	6,473	1,750
Unrealized gain (loss) on investments	0	63
<u>Total Support and Revenue</u>	<u>1,533,571</u>	<u>1,533,770</u>
 <u>Expenses</u>		
Program	1,256,617	1,312,730
Management	65,180	76,156
Fundraising	54,740	61,461
<u>Total Expenses</u>	<u>1,376,537</u>	<u>1,450,347</u>
 Change in Net Assets	157,034	83,423
 Net Assets - January 1	293,709	210,286
 Net Assets - December 31	\$ <u>450,743</u>	\$ <u>293,709</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31

	2010				2009			
	Program Services	Management & General	Fund Raising	Total	Program Services	Management & General	Fund- Raising	Total
Cost of goods sold	\$ 914	\$	\$	914	\$ 12,687	\$	\$	12,687
Assistance programs	625,336			625,336	738,378			738,378
Meals on Wheels donation	1,800			1,800	1,650			1,650
Printing	815		2,444	3,259	1,810		5,333	7,143
Salaries and wages	316,875	26,406	8,802	352,083	323,266	25,851	9,358	358,475
Payroll taxes	30,995	2,583	861	34,439	28,710	2,233	957	31,900
Rent	90,730	5,041	5,041	100,812	85,337	4,741	4,741	94,819
Telephone and utilities	37,711	2,095	2,095	41,901	42,158	2,342	2,342	46,842
Office supplies and equipment	2,696	150	150	2,996	10,768	598	598	11,964
Insurance	22,202	1,543		23,745	22,157	1,478		23,635
Advertising	302	384	228	914	414	532	320	1,266
Vehicle expense	4,324			4,324	6,263			6,263
Payroll processing				0	2,238	174	75	2,487
Repairs and maintenance	9,830	3,276	3,276	16,382	8,724	3,216	3,216	15,156
Fundraising expense			29,649	29,649				33,878
Professional fees		8,381		8,381		6,575		6,575
Mileage	6,902			6,902	9,497			9,497
Employee benefits				0	3,365	261	112	3,738
Contract labor		3,145		3,145		18,995		18,995
Continuing education	641	274		915	320	144		464
Dues and subscriptions		1,111		1,111		700		700
Taxes and licenses		671		671		568		568
Bank charges	8,955			8,955	6,073			6,073
Postage	1,126	1,126	1,125	3,377	530	530	531	1,591
Disaster relief expense	81,853			81,853				0
Copier supplies/usage	2,138	1,069	1,069	4,276				0
Other	3,987			3,987				0
Depreciation	6,485	7,925		14,410	2,506			2,506
Total	\$ 1,256,617	\$ 65,180	\$ 54,740	\$ 1,376,537	\$ 1,312,730	\$ 76,156	\$ 61,461	\$ 1,450,347

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31

	<u>2010</u>	<u>2009</u>
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$ 422,981	\$ 458,712
Cash received from store sales	417,582	454,547
Cash received from other sources	169,101	92,048
Cash paid for assistance programs	(205,716)	(202,154)
Cash paid for salaries and related expenses	(384,629)	(398,245)
Cash paid for rent	(109,921)	(94,819)
Cash paid for other program services	(109,473)	(126,120)
Cash paid for other management and general expenses	(23,225)	(27,355)
Cash paid for other fundraising expenses	(40,036)	(46,318)
Net cash provided (used) by operating activities	<u>136,664</u>	<u>110,296</u>
<u>Cash flow from financing activities</u>		
Purchase of equipment	(27,047)	(835)
<u>Cash flow from investing activities</u>		
Proceeds to purchase copier	17,237	0
Payments on loan	(7,016)	0
Net cash provided (used) by investing activities	<u>10,221</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	119,838	109,461
Cash and cash equivalents - January 1	148,007	38,546
Cash and cash equivalents - December 31	\$ <u>267,845</u>	\$ <u>148,007</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 AND 2009

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. 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 December 31, 2010 and 2009.

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 December 31, 2010 and 2009.

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
YEAR ENDED DECEMBER 31, 2010 AND 2009

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

In August 1996, the Board of Directors passed a motion to set aside 20% of the thrift store sales as a temporarily restricted net asset for future growth needs which may include purchasing a building for the Organization or leasing additional office space. The percentage was reduced to 5% beginning January 1, 1999. In February 2003, the purpose of the fund set aside was changed to a board sponsored endowment fund. The board passed a motion to be effective as of January 1, 2010 to cease allocating a portion of the store sales to an endowment fund and to release prior designations from any restrictions.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Undesignated	\$ 450,743	\$ 153,965
Designated for endowment purposes	<u>0</u>	<u>139,744</u>
	\$ <u>450,743</u>	\$ <u>293,709</u>

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 December 31:

	<u>2010</u>	<u>2009</u>
Office equipment	\$ 97,987	\$ 70,940
Leasehold improvements	12,427	12,427
Vehicles	<u>40,528</u>	<u>40,528</u>
	150,942	123,895
Accumulated depreciation	<u>(104,737)</u>	<u>(90,327)</u>
	\$ <u>46,205</u>	\$ <u>33,568</u>

NOTE 5 - OPERATING LEASES

The Organization leases its office, showroom and warehouse at 104 Southeast Parkway from Glass Properties for \$8,109 per month. This lease contained a renewal option for an additional sixty months which was taken. In May 2011, the organization will lease additional space on a month to month basis for \$500 per month.

Future lease payments: 2011 \$ 89,010

NOTE 6 - FINANCIAL INSTRUMENTS

The Organization does not hold any financial instruments for trading purposes. The Organization estimates that the fair value of all financial instruments at December 31, 2010 and 2009, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Financial Position.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010 AND 2009

Investment account as of December 31, 2010 consists of:

	<u>Cost</u>	<u>Fair Market</u>
Stocks	\$ 1,600	\$ 854
Cash equivalents	<u>7,696</u>	<u>7,696</u>
	\$ <u>9,296</u>	\$ <u>8,550</u>

NOTE 7 - SUBSEQUENT EVENT

The Organization has elected to change its year end from December 31 to June 30. The change is effective as of June 30, 2011.