

2020

Financial Statements

GRACEWORKS MINISTRIES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

(With Independent Auditor's Report Thereon)

GRACEWORKS MINISTRIES, INC.
FINANCIAL STATEMENTS
JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

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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, 2020, 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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited the GraceWorks Ministries, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Patterson Hardee & Ballentine

November 19, 2020

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and restricted cash	\$ 1,795,256	\$ 794,272
Accounts receivable	74,250	2,100
Inventory	546,383	532,849
Prepaid expenses	15,286	16,255
Total current assets	<u>2,431,175</u>	<u>1,345,476</u>
Property and Equipment:		
Vehicles	267,387	265,387
Property and equipment	116,514	91,296
Leasehold improvements	141,586	39,352
	<u>525,487</u>	<u>396,035</u>
Less: accumulated depreciation	<u>(209,906)</u>	<u>(150,222)</u>
Total property and equipment, net	<u>315,581</u>	<u>245,813</u>
Assets Whose Use is Limited:		
Investment - endowment	515,346	527,907
Total assets whose use is limited	<u>515,346</u>	<u>527,907</u>
Total assets	<u>\$ 3,262,102</u>	<u>\$ 2,119,196</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 22,809	\$ 1,860
Payroll liabilities	57,907	26,580
Sales tax payable	-	5,063
Deferred revenue	109,132	50,349
Accrued expenses	15,409	18,547
Total current liabilities	<u>205,257</u>	<u>102,399</u>
Long-term Liability		
Bank Loan	<u>267,500</u>	<u>-</u>
Total liabilities	<u>472,757</u>	<u>102,399</u>
Net Assets:		
Without donor restrictions	2,140,151	1,365,745
With donor restrictions	<u>649,194</u>	<u>651,052</u>
Total net assets	<u>2,789,345</u>	<u>2,016,797</u>
Total liabilities and net assets	<u>\$ 3,262,102</u>	<u>\$ 2,119,196</u>

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
Public Support and Revenue:				
Gross special event revenue	\$ 444,951	\$ -	\$ 444,951	\$ 588,125
Less direct cost of special events	107,466	-	107,466	133,130
Net special events revenue	337,485	-	337,485	454,995
Public Support:				
In-kind donation	4,209,634	-	4,209,634	4,060,554
Grants	352,167	-	352,167	155,867
Individual contributions	974,771	373,327	1,348,098	491,611
Business donations	159,400	-	159,400	82,084
Church contributions	389,830	-	389,830	322,757
Net assets released from temporarily restricted	377,466	(377,466)	-	-
Total public support	6,800,753	(4,139)	6,796,614	5,567,868
Program and Other Revenue:				
Store income	815,516	-	815,516	1,089,338
Neighbor assistance payments	74,873	-	74,873	96,925
Investment income, net	5,382	2,281	7,663	28,457
Other income	800	-	800	-
Gain on sales of assets	-	-	-	7,043
Total program and other revenue	896,571	2,281	898,852	1,221,763
Total revenue	7,697,324	(1,858)	7,695,466	6,789,631
Expenses:				
Program services				
Food programs	4,966,567	-	4,966,567	5,457,963
Shelter programs	455,992	-	455,992	115,978
Other programs	698,986	-	698,986	374,204
Total program services	6,121,545	-	6,121,545	5,948,145
Supporting Services				
Management and general	421,401	-	421,401	402,217
Fundraising & special events	379,972	-	379,972	331,078
Total supporting services	801,373	-	801,373	733,295
Total expenses	6,922,918	-	6,922,918	6,681,440
Increase (decrease) in net assets	774,406	(1,858)	772,548	108,191
Net assets - beginning of year	1,365,745	651,052	2,016,797	1,908,606
Net assets - end of year	\$ 2,140,151	\$ 649,194	\$ 2,789,345	\$ 2,016,797

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

	Program Services				Supporting Services				Total	Total
	Food	Shelter	Support	Total Program	Management and General	Fundraising & Special Events			2020	2019
Salaries	\$ 513,134	\$ 88,943	\$ 82,102	\$ 684,179	\$ 253,809	\$ 165,527	\$	\$	1,103,515	\$ 1,027,274
Payroll taxes and benefits	87,887	15,233	14,062	117,182	43,471	28,350			189,003	161,014
Total payroll and related expenses	601,021	104,176	96,164	801,361	297,280	193,877			1,292,518	1,188,288
Advertising	-	-	-	-	-	2,931			2,931	899
Bad debt expense	-	-	-	-	-	7,236			7,236	598
Client services	555,336	123,132	75,788	754,256	-	-			754,256	755,783
Continuing education, memberships, and volunteer	4,312	827	768	5,907	2,192	1,429			9,528	5,319
Depreciation and amortization	53,928	10,342	9,603	73,873	4,104	4,104			82,081	45,124
Dues and subscriptions	-	-	-	-	2,088	-			2,088	4,233
Fundraising	-	-	-	-	-	107,466			107,466	133,130
General & IT repairs and maintenance	38,795	7,440	6,909	53,144	21,680	18,044			92,868	80,929
General administration expenses	16,968	3,254	3,022	23,244	3,774	3,724			30,742	35,768
In-kind expenses	3,475,369	164,529	467,368	4,107,266	45,620	43,614			4,196,500	4,122,400
Insurance	22,728	4,359	4,048	31,135	3,459	-			34,594	41,424
Licenses and fees	-	-	-	-	276	-			276	538
Merchant and bank fees	25,963	4,979	4,624	35,566	6,022	17,119			58,707	49,999
Mileage and expense reimbursement	3,721	653	698	5,072	2,039	2,322			9,433	12,806
Office supplies	4,586	879	817	6,282	2,734	1,592			10,608	12,668
Postage and freight	-	-	-	-	1,397	-			1,397	4,648
Printing	4,022	772	716	5,510	5,511	11,020			22,041	10,463
Professional services	-	-	-	-	9,375	66,628			76,003	29,801
Property taxes	-	-	-	-	3,772	-			3,772	3,709
Rent	120,304	23,072	21,424	164,800	5,500	5,500			175,800	204,696
Store supplies	9,911	1,901	1,765	13,577	-	-			13,577	13,963
Utilities	29,603	5,677	5,272	40,552	4,598	832			45,982	57,384
Total expenses by function	4,966,567	455,992	698,986	6,121,545	421,401	487,438			7,030,384	6,814,570
Less expense included with revenues on the statement of activities:										
Direct cost of special events	-	-	-	-	-	(107,466)			(107,466)	(133,130)
Total expenses included in the expense section on the statement of activities	\$ 4,966,567	\$ 455,992	\$ 698,986	\$ 6,121,545	\$ 421,401	\$ 379,972	\$	\$	6,922,918	\$ 6,681,440

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Increase in net assets	\$ 772,548	\$ 108,191
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	82,081	45,124
Unrealized losses on investments	12,561	-
Gain(loss) on disposal of equipment	-	(7,043)
Changes in:		
Accounts receivable	(72,150)	(2,100)
Inventory	(13,534)	42,068
Prepaid expenses	969	5,917
Investments - Endowment	-	(79,866)
Accounts payable	20,949	1,860
Credit card payable	(3,138)	3,380
Payroll liabilities	31,327	1,348
Sales tax payable	(5,063)	1,269
Deferred revenue	58,783	(5,531)
Total adjustments	<u>112,785</u>	<u>6,426</u>
Net cash provided by operating activities	<u>885,333</u>	<u>114,617</u>
Cash Flows From Investing Activities:		
Proceeds from sale of property and equipment	-	13,000
Purchase of property and equipment	<u>(151,849)</u>	<u>(183,635)</u>
Net cash used in investing activities	<u>(151,849)</u>	<u>(170,635)</u>
Cash Flows From Financing Activities:		
Issuance of Debt	<u>267,500</u>	<u>-</u>
Net cash provided by financing activities	<u>267,500</u>	<u>-</u>
Net increase (decrease) in cash	1,000,984	(56,018)
Cash and restricted cash - beginning of year	<u>794,272</u>	<u>850,290</u>
Cash and restricted cash - end of year	<u><u>\$ 1,795,256</u></u>	<u><u>\$ 794,272</u></u>

See accompanying notes to financial statements.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

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 devoted to fulfilling our mission statement: Neighbor serving Neighbor, by the power of God's grace. We accomplish this through our core programs: Family Services, Instructional Support, Seasonal Needs and Hunger Prevention.

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:

Food – Providing food to families experiencing crisis or poverty through four access points: a food pantry, mobile food pantries, holiday food boxes, and student fuel bags and classroom snack boxes.

Shelter – Helping families stay in their homes with rent payment assistance and utility payment assistance. Additionally, providing access to temporary shelter through hotel payments and providing household items such as furniture and air conditioners and heaters.

Support – Providing access to additional resources including financial coaching, tax assistance, Christmas gifts, medical supplies, newborn supplies, transportation, gas cards, counseling referrals, and access to our network of partners with additional resources.

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:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Prior Year Summarized Financial Information

While comparative information is not required under United States generally accepted accounting principles ("US GAAP"), we believe this information is useful and have included certain summarized financial information from our 2019 financial statements. Such summarized information is not intended to be a complete presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with our financial statements as of and for the year ended June 30, 2019, from which it was derived.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (continued)

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, 2020 and June 30, 2019, we had no cash equivalents.

Inventory

GraceWorks tracks inventory for its thrift store and food pantry, which are items that are donated to the organization. Accounting principles generally accepted in the United States of America require that contributions be recognized as revenue when received.

Thrift Store Inventory:

The organization considers the value of contributed merchandise to be equal to the value of the annual thrift store revenue. Management estimates that all thrift store donations exit the store within three months' time, therefore the value of the thrift store inventory equals three months of subsequent sales.

Food Pantry Inventory:

The organization considers the value of contributed food to be equal to the number of food carts and fuel bags distributed to community members (neighbors). Food cart value is based on the average weight of the food carts multiplied by \$1.62, which is a donated food value issued in the most recent RSM report from Feeding America. Fuel Bags values were determined by auditing the actual retail price of contents contained in each fuel bag. Management estimates GraceWorks maintains a month and a half of food on premises, therefore the value of the food pantry inventory equals the value of the subsequent 1.5 months of food distributed to our neighbors.

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, 2020, and June 30, 2019, no allowance was 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.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. An employee can carry over up to 40 hours of paid time off at the end of the fiscal year into the new year.

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. Operating costs other than personnel and occupancy costs are allocated based on management's estimate. Account details are reviewed to aid management in their estimates. Personnel costs are allocated based on the time spent in each area the employee works. Occupancy costs, such as leases and utilities are allocated based on square footage used for each functional classification.

Program Services expenses were determined based on how much was spent on each program, in both cash and in-kind expenditures. Using this methodology, 73% of our program expenses were spent on food; 14% were spent on shelter; and 13% were spent on other programs. If you remove in-kind expenses, and only consider cash spent on program expenses, GraceWorks spent 74% of its program expenses on food; 15% on shelter; and 11% on support programs.

Advertising

Advertising is expensed as incurred. Total advertising expense for the years ended June 30, 2020, and June 30, 2019, was \$2,931 and \$899, respectively.

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.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (continued)

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.

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires each asset and liability carried at fair value be classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs that are not corroborated by market data

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held at Charles Schwab, see Note 5	\$ 515,346	\$ -	\$ -	\$ 515,346
	<u>\$ 515,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,346</u>

Revenue Recognition

Fee income is recognized in the period in which services are provided based on a contractual rate per client per day. Rates paid to us are determined by the State of Tennessee per client based on the level of care required. In addition, the funding received from the State of Tennessee is subject to audit and retroactive adjustment.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the new revenue recognition standard. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

Performance Obligations Satisfied at a Point in Time

Revenues that do not satisfy the criteria for recognition over time are recognized at a point in time. Upon fulfillment of the performance obligation, which is the services provided to the customer, revenue is recognized. The Company believes that point in time recognition remains appropriate and will continue to recognize revenues as services are provided. Revenue from services transferred to customers at a point in time accounted for 100% of revenue for the year ended June 30, 2020. Further, at June 30, 2019, 100% of our accounts receivable were revenue from contracts with customers.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassifications

Certain accounts in the June 30, 2019, financial statements have been reclassified for comparative purposes to conform to the presentation of the June 30, 2020, financial statements.

New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued an Accounting Standard Update that will affect the Company's revenue recognition. Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards). The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This Update requires entities to make new judgements and estimates and provide expanded disclosures about revenue. We have adopted this standard retrospectively during 2019. The adoption of this standard had no effect on beginning Net Assets on our statement of operations and Net Assets for the year ended June 30, 2020.

The second, Accounting Standards Update No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. We have adopted these standards retrospectively during 2020. The adoption of this standard had no effect on beginning net assets on our statement of activities for the year ended June 30, 2020.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified on the statements of financial position and cash flows. The statements of financial position and cash flows have been presented to reflect this Accounting Standards Update at June 30, 2019, and certain reclassifications of prior year summarized amounts have been made to conform to the current year presentation.

NOTE 3 - 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.

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 2 - Availability and Liquidity

Financial assets available for general expenditure within one year of the statement of financial position, consist of the following:

Financial assets for the year ended	
Cash	\$ 1,523,467
Accounts receivable	74,250
Inventory	546,383
	<u>\$ 2,144,100</u>

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 2 - Availability and Liquidity (continued)

The Organization has certain board-designated assets limited to use, which are available for general expenditure within one year in the normal course of operations in the amount of \$168,336. Accordingly, these assets have been included in the qualitative information above. The Organization also has certain donor-restricted assets limited to use which are only available for restricted programs. Accordingly, these assets have been excluded from the qualitative information above and are described in NOTE 6.

In the next fiscal year, we plan to receive the same level of income from our donors and our thrift store, and consider this income for programs which are ongoing, major, and central to our annual operations to be available to meet cash needs for general expenditures. The Organization has minimal amounts of liabilities in order to maintain most of its financial assets to be readily available. Cash is currently held in multiple bank accounts including interest bearing savings accounts.

This cash is considered readily available. We manage our liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. If our analysis of liquid assets reveals inadequate funds for near-term operating needs, we will immediately reduce spending of program and management and general expenditures

NOTE 4 - Leases

We leased three copiers under operating leases during the year end June 30, 2020. The minimum monthly rental amount for these copiers is \$545. 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 \$13,200 and the administration building adjacent to the warehouse for a monthly cost of \$1,000. The total yearly rent expense was \$182,050 for the year ended June 30, 2020, which includes \$6,250 for the copiers that is in the General & IT repairs and maintenance line on the statement of functional expenses and \$223,227 for June 30, 2019, which includes \$5,447 for the copiers that is in the General & IT repairs and maintenance line on the statement of functional expenses.

A schedule of future minimum lease payments required under all non-cancelable operating leases as of June 30, 2020, is as follows:

Year Ending June 30,

2021	\$ 162,000
2022	158,400
2023	158,400
	<u>\$ 478,800</u>

NOTE 5 - Investments

Investments consisted of the following at June 30, 2020:

Bond Funds	\$ 266,690
Equity Funds	154,583
Exchange Traded Funds	<u>94,273</u>
	<u>\$ 515,346</u>

The entire investment balance at June 30, 2020, is donor restricted, see NOTE 7.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 6 - Net Assets

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

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 excess of the market value of the corpus that is to remain with the endowment at all times per the investment policy.

Board designated net assets without donor restrictions consisted of the following at June 30,

	<u>2020</u>	<u>2019</u>
Building Improvements	\$ 11,632	\$ 16,632
Set Aside for Future Use	152,893	152,893
Endowment	3,811	-
Neighbor Services programs	27,975	29,119
	<u>\$ 196,311</u>	<u>\$ 198,644</u>

Net assets with donor restrictions consisted of the following at June 30,

	<u>2020</u>	<u>2019</u>
Specific purpose:		
Cash for Backpacks	\$ 2,095	\$ 1,895
Cash for Manger	35,757	16,265
Cash for Our Little Angels	1,801	3,885
Cash for Heaters/AC for Neighbors	-	558
Cash for Food Pantry	46,103	65,011
Endowment:		
Investment endowment fund	563,438	563,438
	<u>\$ 649,194</u>	<u>\$ 651,052</u>

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.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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NOTE 7 - Endowment Funds (continued)

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 original corpus value. Withdrawal of funds cannot cause the account to fall below the original corpus. If market conditions cause the value of the account to fall below this limit, no withdrawal of funds can be made until the value exceeds this limit. Corpus balance will not be restored from general operating funds of the organization rather withdrawals will be prohibited until market growth restores balance. Withdrawn funds will only be used to enhance the Neighbor Service programs above and beyond the amounts typically spent or budgeted on such programs. Funds released for this purpose for the years ended June 30, 2020 and 2019, 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, 2020, our endowment funds were held in an investment account consisting of cash and investment funds, see NOTE 4.

As of June 30, 2020, the funds are shown on the statement of financial position as follows:

Cash and money market funds	\$ 51,903
Investments (NOTE 4)	<u>515,346</u>
	567,249
Board designated - endowment	<u>(3,811)</u>
Donor restricted - endowment	<u>\$ 563,438</u>

The following is a schedule of changes in endowment net assets for the year ended June 30, 2020:

Endowment net assets, June 30, 2019	\$ 563,438
Dividend and interest income	23,027
Administrative expenses	(3,969)
Net appreciation (realized and unrealized)	(11,559)
Amounts released to board designated	<u>(7,499)</u>
Endowment net assets, June 30, 2020	<u>\$ 563,438</u>

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019

NOTE 8 - Contingencies

During the year ended June 30, 2020, the COVID-19 outbreak in the United States had caused business disruption through mandated and voluntary closings of business operations. While the disruption was temporary, the Organization was not negatively affected for the year ending June 30, 2020. However, the COVID-19 outbreak continues to be a major pandemic in the United States and there is still potential for future store closings. There is considerable uncertainty around the possibility, duration, and timing of these closings. Any related financial impact and duration for these possible closings cannot be reasonably estimated at this time.

NOTE 9 - New Pronouncements

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 were recently deferred to become effective January of 2021. We are currently evaluating the impact of adopting this statement.

NOTE 10 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2020. As of November 19, 2020, the date that the financial statements were available to be issued, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements for the year ended June 30, 2020.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

To the Board of Directors
GraceWorks Ministries, Inc.

In planning and performing our audit of the financial statements of GraceWorks Ministries, Inc. (the "Organization") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered GraceWorks Ministries, Inc.'s internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated November 19, 2020, on the financial statements of GraceWorks Ministries, Inc.

Preparation for New Accounting Standards

Leases

We recommend that management begin reviewing all leases engaged in by the Organization (as a lessor or lessee) to start preparing for reporting changes and disclosure requirements included in ASU 2016-02 *Leases (Topic 842)*, that will be effective for annual periods beginning after December 15, 2021. Under this new accounting standard, most leases will need to be recorded as a liability on your financial statements. You will also record an asset for the right to use the leased property.

Please contact us for additional information and guidance as you are going through the process of determining how these new standards will affect your organization.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Patterson Hardee & Ballentine

November 19, 2020



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

November 19, 2020

To the Board of Directors
GraceWorks Ministries

We have audited the financial statements of GraceWorks Ministries, Inc. for the year ended June 30, 2020, and we will issue our report thereon dated November 19, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by GraceWorks Ministries, Inc. are described in Note 1 to the financial statements. As described in Note 1, the Organization changed accounting policies related to revenue recognition and cash flows by adopting FASB Accounting Standards Updates (ASU) No. 2014-19, *Revenue from Contracts with Customers*, 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash* in 2020. Accordingly, the accounting changes have been retrospectively applied to prior periods presented as if these policies had always been used.

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the store and food pantry inventory is based on the subsequent three months sales and subsequent month and half of value for food items given away, respectively. We evaluated the key factors and assumptions used to develop the inventory estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The disclosure in Note 1 to the financial statements describing the basis of allocation of functional expenses into their appropriate functional categories.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 19, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the Board of Directors and Management of GraceWorks Ministries, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Handley & Ballentine