

GRACEWORKS MINISTRIES, INC.

JUNE 30, 2015 AND 2014

**Report
of
Examination**

C O N T E N T S

	<u>Pages</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4 – 5
Statement of Cash Flows	6
Notes to Financial Statements	7 – 10

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INDEPENDENT AUDITOR'S REPORT

January 15, 2016

Board of Directors
GraceWorks Ministries, Inc.
Franklin, Tennessee

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, 2015 and 2014, and the related statements of activities 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, 2015, and the changes in its net assets and its cash flows for the years then ended in accordance 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

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$437,208	\$339,439
Pledges receivable (net)	9,642	15,755
Inventory	202,633	148,615
Prepaid expenses	16,730	20,809
Deposits	1,000	58,319
Furniture and vehicles – net of depreciation	99,310	16,751
<u>Total Assets</u>	<u>\$766,523</u>	<u>\$599,688</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 0	\$ 2,867
Accrued wages	0	6,003
Payroll liabilities	5,352	2,061
Sales tax payable	3,476	2,735
<u>Total Liabilities</u>	<u>8,828</u>	<u>13,666</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	574,928	444,103
Board designated	182,767	101,001
Temporarily restricted Net Assets	0	40,918
<u>Total Net Assets</u>	<u>757,695</u>	<u>586,022</u>
<u>Total Liabilities and Net Assets</u>	<u>\$766,523</u>	<u>\$599,688</u>

See accompanying notes and auditor's report.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES
JUNE 30

	<u>Year Ended June 30, 2015</u>		<u>Year Ended</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>June 30, 2014</u>
			<u>Total</u>
<u>Support and Revenue</u>			
Contributions	\$ 806,300	\$	\$ 694,673
Government	31,012		32,012
Sales – GraceWorks Store	917,053		646,116
Food pantry and baskets	1,335,220		1,224,484
Backpacks In Kind	80,000		30,000
Manger In Kind	199,450		140,720
Special Events	377,875		289,434
Investment income	633		589
Released from restrictions	<u>40,918</u>	<u>(40,918)</u>	<u>0</u>
<u>Total Support and Revenue</u>	<u>3,788,461</u>	<u>(40,918)</u>	<u>3,058,028</u>
 <u>Expenses</u>			
Program	3,127,849		2,534,460
Management	215,211		113,966
Fundraising	<u>232,810</u>		<u>225,698</u>
<u>Total Expenses</u>	<u>3,575,870</u>		<u>2,874,124</u>
 Change in Net Assets	212,591	(40,918)	183,904
 Net Assets – July 1	<u>545,104</u>	<u>40,918</u>	<u>402,118</u>
 Net Assets – June 30	<u>\$ 757,695</u>	<u>\$ 0</u>	<u>\$ 586,022</u>

See accompanying notes and auditor's report.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Assistance programs	\$2,200,043	\$	\$	\$2,200,043
Meals on Wheels donation	1,800			1,800
Store supplies and expense	9,403			9,403
Fairview location	45,019			45,019
Land option		73,698		73,698
Printing		420	1,938	2,358
Salaries and wages	520,478	67,725	82,095	670,298
Payroll taxes	39,244	5,031	6,038	50,313
Rent	122,850	6,825	6,825	136,500
Property taxes	4,819	268	267	5,354
Telephone and utilities	40,865	2,270	2,270	45,405
Office supplies and equipment	8,780	488	488	9,756
Insurance	36,875	1,941		38,816
Advertising	2,144		2,144	4,288
Vehicle expense	9,748			9,748
Repairs and maintenance	14,560	14,369		28,929
Fundraising expense			108,727	108,727
Professional fees		4,800		4,800
Mileage and expense reimbursement	6,307	6,306	6,306	18,919
Employee benefits	21,355	2,738	3,285	27,378
Payroll service		6,684		6,684
Continuing education	4,673	260	259	5,192
Dues and subscriptions	2,770	154	154	3,078
Taxes and licenses		565		565
Bank charges/credit card fees	19,154	592	3,860	23,606
Postage	1,382	1,381	7,673	10,436
Equipment lease	1,546	1,545		3,091
Other		17,069		17,069
Depreciation	14,034	82	481	14,597
<u>Total</u>	<u>\$3,127,849</u>	<u>\$215,211</u>	<u>\$232,810</u>	<u>\$3,575,870</u>

See accompanying notes and auditor's report.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Assistance programs	\$1,783,064	\$	\$	\$1,783,064
Meals on Wheels donation	1,800			1,800
Store supplies and expense	20,153			20,153
Printing			2,701	2,701
Salaries and wages	399,139	67,861	79,267	546,267
Payroll taxes	30,413	4,999	6,249	41,661
Rent	122,400	6,800	6,800	136,000
Property taxes	5,346	297	297	5,940
Telephone and utilities	38,758	2,154	2,153	43,065
Office supplies and equipment	6,713	373	373	7,459
Insurance	27,863	1,467		29,330
Advertising	1,474		1,473	2,947
Vehicle expense	8,640			8,640
Repairs and maintenance	13,361	4,838	4,838	23,037
Fundraising expense			109,983	109,983
Professional fees		5,105	2,550	7,655
Mileage and expense reimbursement	15,527			15,527
Employee benefits	22,010	3,618	4,523	30,151
Contract labor				
Continuing education	3,838	213	213	4,264
Dues and subscriptions	1,817	101	101	2,019
Taxes and licenses		124		124
Bank charges/credit card fees	18,777			18,777
Postage	1,853	1,852	4,177	7,882
Copier supplies/usage				
Other		14,164		14,164
Depreciation	11,514			11,514
<u>Total</u>	<u>\$2,534,460</u>	<u>\$113,966</u>	<u>\$225,698</u>	<u>\$2,874,124</u>

See accompanying notes and auditor's report.

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

	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$843,480	\$735,985
Cash received from store sales	863,776	646,116
Cash received from other sources	378,508	290,023
Cash paid for assistance programs	(635,059)	(388,056)
Cash paid for salaries and related expenses	(750,701)	(619,374)
Cash paid for rent	(136,500)	(136,000)
Cash paid for other program services	(176,011)	(168,296)
Cash paid for other management and general expenses	(53,215)	(27,953)
Cash paid for other fundraising expenses	<u>(123,920)</u>	<u>(133,198)</u>
Net cash provided (used) by operating activities	<u>210,358</u>	<u>199,247</u>
<u>Cash flow from financing activities</u>		
Purchase of equipment	<u>(97,211)</u>	<u>0</u>
<u>Cash flow from investing activities</u>		
Payments on loan	0	0
Deposit paid on property	<u>(15,378)</u>	<u>(57,319)</u>
Net cash provided (used) by investing activities	<u>(15,378)</u>	<u>(57,319)</u>
Net increase (decrease) in cash and cash equivalents	97,769	141,928
Cash and cash equivalents – beginning	339,439	197,511
Cash and cash equivalents – ending	<u>\$437,208</u>	<u>\$339,439</u>

See accompanying notes and auditor's report.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015 AND 2014

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 united by a common loyalty to Jesus Christ. 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. At June 30, 2015, the Organization had \$0 and \$40,918 for June 30, 2014 in temporarily restricted assets.

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, 2015 and 2014.

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.

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.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015 AND 2014

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.

Restrictions/Limitations on Net Assets

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

	<u>6-30-15</u>	<u>6-30-14</u>
Unrestricted		
Undesignated	\$574,908	\$444,103
Board designated – capital campaign	0	50,041
Board designated – client services	40,893	0
Board designated – building improvement	40,893	0
Board designated – other	<u>101,001</u>	<u>50,960</u>
Total Unrestricted	<u>\$757,695</u>	<u>\$545,104</u>
Temporarily Restricted		
Food pantry	\$ 0	\$ 11,490
Fairview Office	0	27,775
Medical Supplies	<u>0</u>	<u>1,653</u>
Total Temporarily Restricted	<u>\$ 0</u>	<u>\$ 40,918</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.

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015 AND 2014

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Office equipment	\$ 84,992	\$ 74,931
Leasehold improvements	15,271	15,271
Vehicles	<u>116,887</u>	<u>40,528</u>
	217,150	130,730
Accumulated depreciation	<u>(117,840)</u>	<u>(113,979)</u>
	<u>\$ 99,310</u>	<u>\$ 16,751</u>

NOTE 5 – OPERATING LEASES

The Organization leases its office, showroom and warehouse at 104 Southeast Parkway for \$13,600 per month. The lease was extended for a 5 year term until June 30, 2020.

July 2015 – June 2016	163,200
July 2016 – June 2017	163,200
July 2017 – June 2018	163,200
July 2018 – June 2019	163,200
July 2019 – June 2020	163,200

NOTE 6 – INCOME TAX

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBTI). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2015 and 2014.

The Organization files its forms 990 in the U.S. federal jurisdiction and the office of the Tennessee Secretary of State. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2011.

NOTE 7 – PROMISES TO GIVE

The Organization is holding a fund-raising campaign for funds to purchase property for their Operations. Promises to give are restricted for the capital campaign. The promises to give as of June 30, 2014, are unconditional and are currently due.

	<u>2015</u>	<u>2014</u>
Pledges Receivable	\$15,662	\$23,000
Allowance for uncollectible	<u>(6,020)</u>	<u>(7,245)</u>
Net Pledges Receivable	<u>\$ 9,642</u>	<u>\$15,755</u>

GRACEWORKS MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015 AND 2014

NOTE 8 – ASSISTANCE PROGRAMS

Included in the figures for total Assistance Programs expense are estimated value of donated items.

Food for pantry and baskets	\$1,335,220
Backpacks for school	80,000
Manger Christmas Program	<u>199,450</u>
Total In-Kind Value	<u>\$1,614,670</u>