

GRACEWORKS MINISTRIES, INC.

DECEMBER 31, 2006 AND 2005

Report

of

Examination

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AMERICAN INSTITUTE OF
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INDEPENDENT AUDITOR'S REPORT

June 29, 2007

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, 2006 and 2005 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, 2006 and 2005, 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>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$ 94,621	\$ 97,496
Inventory	107,461	93,769
Investment account	29,206	27,560
Prepaid expenses	14,232	13,808
Furniture and vehicles - net of depreciation	<u>36,964</u>	<u>27,399</u>
<u>Total Assets</u>	<u>\$ 282,484</u>	<u>\$ 260,032</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 10,823	\$ 28,260
Accrued wages	4,100	0
Sales tax payable	<u>2,583</u>	<u>1,874</u>
<u>Total Liabilities</u>	<u>17,506</u>	<u>30,134</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	169,577	79,872
Designated	<u>95,401</u>	<u>150,026</u>
<u>Total Unrestricted Net Assets</u>	<u>264,978</u>	<u>229,898</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 282,484</u>	<u>\$ 260,032</u>

See notes to financial statements.

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

	<u>Unrestricted</u>	
	<u>2006</u>	<u>2005</u>
<u>Support and Revenue</u>		
Contributions	\$ 290,610	\$ 308,305
Government	23,974	18,587
Sales - Graceworks Store	421,650	383,485
Special Events	49,551	51,407
Investment income	2,705	309
Other	12,496	0
Realized gain (loss) on investment	0	(704)
Unrealized gain (loss) on investments	463	(54)
<u>Total Support and Revenue</u>	<u>801,449</u>	<u>761,335</u>
 <u>Expenses</u>		
Program	651,847	616,984
Management	56,364	58,245
Fundraising	58,158	54,154
<u>Total Expenses</u>	<u>766,369</u>	<u>729,383</u>
 Change in Net Assets	 35,080	 31,952
 Net Assets - January 1	 229,898	 197,946
 Net Assets - December 31	 <u>\$ 264,978</u>	 <u>\$ 229,898</u>

See notes to financial statements.

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

	2006				2005			
	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- Raising</u>	<u>Total</u>
Cost of goods sold	\$ 16,084	\$	\$	\$ 16,084	\$ 25,334	\$	\$	\$ 25,334
Assistance programs	213,434			213,434	239,905			239,905
Meals on Wheels donation	1,800			1,800	1,950			1,950
Printing	6,281	4,211		10,492	434	326		760
Salaries and wages	213,657	14,001	24,380	252,038	182,158	18,111	28,691	228,960
Payroll taxes	16,927	1,108	1,933	19,968	15,282	1,528	2,293	19,103
Rent	98,375	5,465	5,465	109,305	87,575	4,865	4,865	97,305
Telephone and utilities	31,974	1,776	1,776	35,526	20,992	5,769		26,761
Office supplies and equipment	6,487	6,731		13,218	6,393	6,491		12,884
Insurance	9,489			9,489	10,286			10,286
Advertising	11,284	1,393		12,677	1,482	719	365	2,566
Vehicle expense	6,026			6,026	5,702			5,702
Payroll processing	2,090	137	239	2,466	910	91	136	1,137
Repairs and maintenance	3,020	4,244		7,264	1,108	4,182		5,290
Fundraising expense			23,392	23,392			15,877	15,877
Professional fees		2,580		2,580		2,400		2,400
Mileage	1,734			1,734	2,008			2,008
Employee benefits	3,161	207	361	3,729	2,916	93	636	3,645
Contract labor	6,174			6,174	8,417			8,417
Continuing education		935		935		2,957		2,957
Dues and subscriptions		2,152		2,152		685		685
Taxes and licenses		420		420		561		561
Bank charges		579		579		471		471
Postage	613	612	612	1,837	1,291	1,291	1,291	3,873
Other		1,612		1,612		1,775		1,775
Depreciation	3,237	8,201		11,438	2,841	5,930		8,771
<u>Total</u>	<u>\$ 651,847</u>	<u>\$ 56,364</u>	<u>\$ 58,158</u>	<u>\$ 766,369</u>	<u>\$ 616,984</u>	<u>\$ 58,245</u>	<u>\$ 54,154</u>	<u>\$ 729,383</u>

See notes to financial statements.

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

	<u>2006</u>	<u>2005</u>
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$ 314,584	\$ 295,489
Cash received from store sales	392,583	383,672
Cash received from other sources	64,752	51,337
Cash paid for assistance programs	(215,234)	(241,855)
Cash paid for salaries and related expenses	(271,635)	(251,708)
Cash paid for rent	(109,305)	(98,305)
Cash paid for other program services	(103,034)	(34,692)
Cash paid for other management and general expenses	(27,382)	(27,718)
Cash paid for other fundraising expenses	(26,019)	(17,669)
Net cash provided (used) by operating activities	<u>19,310</u>	<u>58,551</u>
<u>Cash flow from investing activities</u>		
Purchase of investments	(1,182)	0
<u>Cash flow from financing activities</u>		
Purchase of equipment	(21,003)	(7,645)
Net increase (decrease) in cash and cash equivalents	<u>(2,875)</u>	<u>50,906</u>
Cash and cash equivalents - January 1	97,496	46,590
Cash and cash equivalents - December 31	\$ <u>94,621</u>	\$ <u>97,496</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006 AND 2005

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 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 total designation was \$19,551 for 2006 and \$17,451 for 2005.

	<u>2006</u>	<u>2005</u>
Designated for endowment purposes	\$ 169,577	\$ 150,026
Undesignated	<u>95,401</u>	<u>79,872</u>
	\$ <u>264,978</u>	\$ <u>229,898</u>

GRACEWORKS MINISTRIES, Inc.
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GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006 AND 2005

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>2006</u>	<u>2005</u>
Office equipment	\$ 66,393	\$ 48,953
Leasehold improvements	3,563	0
Vehicles	<u>10,735</u>	<u>10,735</u>
	80,691	59,688
Accumulated depreciation	<u>(43,727)</u>	<u>(32,289)</u>
	<u>\$ 36,964</u>	<u>\$ 27,399</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 December 2005, the board agreed to lease additional warehouse space for \$1,000 per month.

Future lease payments:	2007	\$109,305
	2008	\$109,305
	2009	\$ 91,090

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006 AND 2005

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, 2006 and 2005, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Financial Position.

Investment account as of December 31, 2006 consists of:

	<u>Cost</u>	<u>Fair Market</u>
Stocks	\$ 1,600	\$ 3,417
Money market account	<u>25,789</u>	<u>25,789</u>
	\$ <u>27,389</u>	\$ <u>29,206</u>

NOTE 7 - RETIREMENT PLAN

The Organization has approved a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan for the employees. Eligibility requirements: (1) employee is expected to receive \$5,000 in compensation for the calendar year, (2) employee has received at least \$5,000 compensation in any of two previous years.

Employer may match the employee's contribution up to a limit of 3% of the employee's compensation for the calendar year. Contributions made are fully vested and nonforfeitable.

During the year ended December 31, 2006, contributions to the plan by the employer were \$3,729 and \$3,645 for the year ended December 31, 2005.