

GRACEWORKS MINISTRIES, INC.

JUNE 30, 2013 and 2012

Report  
of  
Examination

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**INDEPENDENT AUDITOR'S REPORT**

January 16, 2014

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, 2013 and 2012, 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, 2013, 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>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$ 197,511	\$ 167,063
Pledges receivable (net)	24,930	0
Inventory	160,212	123,189
Prepaid expenses	9,249	14,127
Deposits	1,000	0
Furniture and vehicles – net of depreciation	<u>28,266</u>	<u>31,309</u>
<u>Total Assets</u>	<u>\$ 421,168</u>	<u>\$ 335,688</u>
 <u>LIABILITIES</u>		
Accounts payable	\$ 7,080	\$ 704
Accrued wages	5,298	4,397
Payroll tax liabilities	4,035	2,770
Sales tax payable	2,637	2,660
Note payable - copier	<u>0</u>	<u>2,854</u>
<u>Total Liabilities</u>	<u>19,050</u>	<u>13,385</u>
 <u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	317,256	214,150
Board designated	84,862	100,709
Temporarily restricted Net Assets	<u>0</u>	<u>7,444</u>
<u>Total Net Assets</u>	<u>402,118</u>	<u>322,303</u>
 <u>Total Liabilities and Net Assets</u>	 <u>\$ 421,168</u>	 <u>\$ 335,688</u>

See notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30**

	<u>Year Ended June 30, 2013</u>		<u>Year Ended June</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>30, 2012</u>
			<u>Total</u>
<u>Support and Revenue</u>			
Contributions`	\$ 591,670	\$	\$ 410,454
Government	31,012		31,012
Sales – Graceworks Store	672,707		547,130
Food pantry	831,836		551,895
Other in-kind donations	109,500		109,500
Special Events	236,061		156,432
Investment income	443		1,401
Released from restrictions	<u>7,444</u>	<u>( 7,444)</u>	<u>0</u>
<u>Total Support and Revenue</u>	<u>2,480,673</u>	<u>( 7,444)</u>	<u>1,807,824</u>
 <u>Expenses</u>			
Program	2,093,423		1,601,159
Management	89,814		100,732
Fundraising	<u>210,177</u>		<u>182,048</u>
<u>Total Expenses</u>	<u>2,393,414</u>		<u>1,883,939</u>
 Change in Net Assets	87,259	( 7,444)	( 76,115)
Net Assets – July 1	<u>314,859</u>	<u>7,444</u>	<u>398,418</u>
Net Assets – June 30	\$ <u>402,118</u>	\$ <u>0</u>	\$ <u>322,303</u>

See notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2013**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fund Raising</u>	<u>Total</u>
Assistance programs	\$ 1,364,459	\$	\$	\$ 1,364,459
Meals on Wheels donation	1,800			1,800
Store supplies and expense	13,173			13,173
Printing			10,137	10,137
Salaries and wages	369,598	51,100	51,229	471,927
Payroll taxes	32,620	4,600	4,600	41,820
Rent	128,250	7,125	7,125	142,500
Property taxes	14,096	783	783	15,662
Telephone and utilities	44,111	2,451	2,451	49,013
Office supplies and equipment	6,041	136	536	6,713
Insurance	19,446	1,023		20,469
Advertising	1,671		1,672	3,343
Vehicle expense	6,483			6,483
Repairs and maintenance	7,144	2,629	2,630	12,403
Fundraising expense			62,508	62,508
Professional fees		6,320	59,001	65,321
Mileage and expense reimbursement	9,441			9,441
Employee benefits	22,153	3,124	3,124	28,401
Contract labor	20,647			20,647
Continuing education	2,779	154	155	3,088
Dues and subscriptions	1,170	65	65	1,300
Taxes and licenses		472		472
Bank charges/credit card fees	13,250			13,250
Postage	1,682	1,682	3,776	7,140
Copier supplies/usage	771	386	385	1,542
Other		7,764		7,764
Depreciation	<u>12,638</u>			<u>12,638</u>
<u>Total</u>	<u>\$ 2,093,423</u>	<u>\$ 89,814</u>	<u>\$ 210,177</u>	<u>\$ 2,393,414</u>

See notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2012**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fund Raising</u>	<u>Total</u>
Assistance programs	\$ 968,704	\$	\$	\$ 968,704
Meals on Wheels donation	1,800			1,800
Printing	1,121			1,121
Salaries and wages	354,003	43,376	54,600	451,979
Payroll taxes	32,212	4,130	4,955	41,297
Rent	116,995	6,500	6,500	129,995
Property taxes	9,734	541	541	10,816
Telephone and utilities	37,416	2,078	2,079	41,573
Office supplies and equipment	653	3,150		3,803
Insurance	18,634	981		19,615
Advertising	660		2,402	3,062
Vehicle expense	3,688			3,688
Repairs and maintenance	1,138	4,405		5,543
Fundraising expense			55,337	55,337
Professional fees		12,875	51,835	64,710
Mileage	6,095			6,095
Employee benefits	18,679	2,394	2,874	23,947
Contract labor		15,418		15,418
Continuing education		981		981
Dues and subscriptions		740		740
Taxes and licenses		890		890
Bank charges/credit card fees	9,193	1,347		10,540
Postage	593	593	593	1,779
Copier supplies/usage	665	333	332	1,330
Other	5,590			5,590
Depreciation	13,586			13,586
<u>Total</u>	<u>\$ 1,601,159</u>	<u>\$ 100,732</u>	<u>\$ 182,048</u>	<u>\$ 1,883,939</u>

See notes to financial statements.

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

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$ 597,752	\$ 441,466
Cash received from store sales	588,966	519,294
Cash received from other sources	236,504	157,833
Cash paid for assistance programs	(378,231)	(280,725)
Cash paid for salaries and related expenses	(539,982)	(512,621)
Cash paid for rent	(142,500)	(129,995)
Cash paid for other program services	(141,275)	(105,514)
Cash paid for other management and general expenses	( 41,547)	( 44,332)
Cash paid for other fundraising expenses	<u>(135,792)</u>	<u>(113,119)</u>
Net cash provided (used) by operating activities	<u>43,895</u>	<u>( 67,713)</u>
<u>Cash flow from financing activities</u>		
Purchase of equipment	<u>(9,594)</u>	<u>( 7,087)</u>
<u>Cash flow from investing activities</u>		
Payments on loan	(2,853)	( 4,911)
Deposit paid on property	<u>(1,000)</u>	<u>0</u>
Net cash provided (used) by investing activities	<u>(3,853)</u>	<u>( 4,911)</u>
Net increase (decrease) in cash and cash equivalents	30,448	( 79,711)
Cash and cash equivalents – beginning	167,063	246,774
Cash and cash equivalents – ending	\$ <u>197,511</u>	\$ <u>167,063</u>

See notes to financial statements.



**GRACEWORKS MINISTRIES, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**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, 2013, the Organization had no 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, 2013 and 2012.

**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, 2013**

**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.

**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>6-30-13</u>	<u>6-30-12</u>
Unrestricted		
Undesignated	\$ 317,256	\$ 214,150
Board designated – capital campaign	33,902	( 50,251)
Board designated – other	<u>50,960</u>	<u>150,960</u>
Total Unrestricted	<u>402,118</u>	<u>314,859</u>
Temporarily Restricted		
Food pantry	0	3,000
Air-conditioner	0	2,544
Fuel bags	<u>0</u>	<u>1,900</u>
Total Temporarily Restricted	<u>\$ 0</u>	<u>\$ 7,444</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.

**GRACEWORKS MINISTRIES, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**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 June 30:

	<u>2013</u>	<u>2012</u>
Office equipment	\$ 74,931	\$ 98,517
Leasehold improvements	15,271	15,271
Vehicles	<u>40,528</u>	<u>40,528</u>
	130,730	154,316
Accumulated depreciation	<u>( 102,464)</u>	<u>(123,007)</u>
	<u>\$ 28,266</u>	<u>\$ 31,309</u>

**NOTE 5 – OPERATING LEASES**

The Organization leases its office, showroom and warehouse at 104 Southeast Parkway from Glass Properties for \$11,375 per month. In addition the organization leases additional space on a month to month basis for \$500 per month. The lease has been extended through October 2016.

July 2013 – June 2014	142,500
July 2014 – June 2015	142,500
July 2015 – June 2016	142,500

**NOTE 6 – CHANGE IN ACCOUNTING PERIOD**

The Organization has elected to change its fiscal year end from December 31 to June 30. The change was effective as of June 30, 2011 and resulted in a reporting period that contains six months.

**NOTE 7 – 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 (UBIT). 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, 2013 and 2012.

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 2010.

**GRACEWORKS MINISTRIES, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**NOTE 8 – 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, 2013, are unconditional and are due within the following 2 years.

	<u>2013</u>	<u>2012</u>
Pledges Receivable	\$ 32,175	\$ 0
Allowance for uncollectible	( 7,245)	<u>0</u>
Net Pledges Receivable	\$ <u>24,930</u>	\$ <u>0</u>