

GRACEWORKS MINISTRIES, INC.
DECEMBER 31, 2007 AND 2006

Report
of
Examination

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

August 8, 2008

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, 2007 and 2006 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, 2007 and 2006, 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>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$ 88,886	\$ 91,621
Inventory	106,208	107,461
Investment account	29,706	29,206
Prepaid expenses	13,094	14,232
Furniture and vehicles - net of depreciation	58,477	36,964
<u>Total Assets</u>	\$ <u>296,371</u>	\$ <u>282,484</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 8,352	\$ 10,823
Accrued wages	0	4,100
Sales tax payable	2,868	2,583
<u>Total Liabilities</u>	<u>11,220</u>	<u>17,506</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	190,784	169,577
Designated	94,367	95,401
<u>Total Unrestricted Net Assets</u>	<u>285,151</u>	<u>264,978</u>
<u>Total Liabilities and Net Assets</u>	\$ <u>296,371</u>	\$ <u>282,484</u>

See notes to financial statements.

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

	<u>Unrestricted</u>	
	<u>2007</u>	<u>2006</u>
<u>Support and Revenue</u>		
Contributions	\$ 426,649	\$ 290,610
Government	33,761	23,974
Sales - Graceworks Store	424,131	421,650
Food pantry	139,385	
Other goods donated	16,989	
Special Events	76,690	49,551
Investment income	3,210	2,705
Other	1,000	12,496
Unrealized gain (loss) on investments	(178)	463
<u>Total Support and Revenue</u>	<u>1,021,037</u>	<u>801,449</u>
 <u>Expenses</u>		
Program	862,582	651,847
Management	59,798	56,364
Fundraising	78,484	58,158
<u>Total Expenses</u>	<u>1,000,864</u>	<u>766,369</u>
 Change in Net Assets	20,173	35,080
 Net Assets - January 1	264,978	229,698
 Net Assets - December 31	\$ 285,151	\$ 264,978

See notes to financial statements.

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

	2007				2006			
	<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	\$ 16,793	\$	\$	\$ 16,793	\$ 16,084	\$	\$	\$ 16,084
Assistance programs	359,619			359,619	213,434			213,434
Meals on Wheels donation	1,800			1,800	1,800			1,800
Printing	374			374	6,281	4,211		10,492
Salaries and wages	250,944	14,458	24,623	250,025	213,657	14,001	24,360	252,038
Payroll taxes	21,320	1,228	2,093	24,641	16,927	1,108	1,933	19,968
Rent	98,375	5,468	5,468	109,305	98,375	5,468	5,468	109,305
Grant writing			5,000	5,000				
Telephone and utilities	33,443	1,858	1,858	37,159	31,974	1,776	1,776	35,526
Office supplies and equipment	9,485	5,178	349	15,012	6,487	6,731		13,218
Insurance	9,491	1,313		10,709	9,485			9,489
Advertising	5,858	545	9,007	15,510	11,284	1,393		12,677
Vehicle expense	6,127			6,127	6,026			6,026
Payroll processing	1,952	113	192	2,257	2,090	137	235	2,466
Repairs and maintenance	15,415	856	857	17,128	3,020	4,244		7,264
Fundraising expense			27,803	27,803			23,392	23,392
Professional fees		3,139		3,139		2,980		2,980
Mileage	4,350			4,350	1,734			1,734
Employee benefits	4,656	417	417	5,690	3,161	207	361	3,729
Contract labor	12,057			12,057	6,174			6,174
Continuing education	767	6,200		6,767		935		935
Dues and subscriptions		2,565		2,565		2,152		2,152
Taxes and licenses	63	340		423		420		420
Bank charges		1,637		1,637		579		579
Postage	619	518	820	2,456	613	612	612	1,837
Other	3,219	2,156		5,374		1,612		1,612
Depreciation	5,437	11,707		17,144	3,237	8,201		11,438
<u>Total</u>	<u>\$ 862,582</u>	<u>\$ 52,723</u>	<u>\$ 78,434</u>	<u>\$ 1,000,864</u>	<u>\$ 651,847</u>	<u>\$ 56,264</u>	<u>\$ 58,153</u>	<u>\$ 765,359</u>

See notes to financial statements.

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

	<u>2007</u>	<u>2006</u>
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$ 360,410	\$ 314,584
Cash received from store sales	424,131	392,583
Cash received from other sources	80,900	64,752
Cash paid for assistance programs	(205,045)	(215,234)
Cash paid for salaries and related expenses	(324,456)	(271,635)
Cash paid for rent	(109,305)	(109,305)
Cash paid for other program services	(108,319)	(103,034)
Cash paid for other management and general expenses	(38,230)	(27,332)
Cash paid for other fundraising expenses	(45,886)	(26,019)
Net cash provided (used) by operating activities	<u>34,200</u>	<u>19,310</u>
<u>Cash flow from investing activities</u>		
Purchase of investments	(1,278)	(1,182)
<u>Cash flow from financing activities</u>		
Purchase of equipment	(38,657)	(21,003)
Net increase (decrease) in cash and cash equivalents	<u>(5,735)</u>	<u>(2,875)</u>
Cash and cash equivalents - January 1	94,621	97,496
Cash and cash equivalents - December 31	\$ <u>88,886</u>	\$ <u>94,621</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Graceworks Ministries, Inc. was incorporated in 1994, under the Tennessee Nonprofit Corporation Act. Its purpose is to coordinate certain humanitarian and outreach activities of member Churches and Agencies. The Organization is supported primarily through donor contributions and grants.

Basis of Accounting

The financial statements of Graceworks Ministries, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets at December 31, 2007 and 2006.

Permanently Restricted Net Assets

Net assets subject to imposed stipulations that they be maintained permanently by the Organization. Generally, these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at December 31, 2007 and 2006.

Income Tax Status

Graceworks Ministries, Inc. qualifies as a tax exempt organization under Internal Revenue Section 501(c)(3) as a publicly supported organization and, therefore, has no provision for federal income taxes. The organization has been classified as an organization that is not a private foundation.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007 AND 2006

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Donated Property

Donations of property and goods are recorded as contributions at their estimated fair value at the date of donation. The Organization operates a food pantry and thrift store as part of its mission.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which ranges from five to ten years.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of one year or less to be cash equivalents.

Designation of Unrestricted Net Assets

In August 1996, the Board of Directors passed a motion to set aside 20% of the thrift store sales as a temporarily restricted net asset for future growth needs which may include purchasing a building for the Organization or leasing additional office space. The percentage was reduced to 5% beginning January 1, 1999. In February 2003, the purpose of the fund set aside was changed to a board sponsored endowment fund. The total designation was \$21,207 for 2007 and \$19,551 for 2006.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Designated for endowment purposes	\$ 190,784	\$ 169,577
Undesignated	<u>94,367</u>	<u>95,401</u>
	\$ <u>285,151</u>	\$ <u>264,978</u>

NOTE 2 - INVENTORY

A thrift store is operated by the Organization as a means of raising funds for its program services. Items sold at the store have been donated by various members of the community. The fair market value is estimated using subsequent sales as suggested by SFAS No. 116.

NOTE 3 - DONATED ASSETS

The Organization records donations of securities and other noncash assets at their estimated fair value at the date of donations.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Office equipment	\$ 66,393	\$ 66,393
Leasehold improvements	12,427	3,563
Vehicles	<u>40,528</u>	<u>10,735</u>
	119,348	80,691
Accumulated depreciation	(60,871)	(43,727)
	\$ 58,477	\$ 36,964

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:	2008	\$109,305
	2009	\$ 91,090

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007 AND 2006

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, 2007 and 2006, 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, 2007 consists of:

	<u>Cost</u>	<u>Fair Market</u>
Stocks	\$ 1,600	\$ 2,641
Cash equivalents	<u>27,065</u>	<u>27,065</u>
	\$ <u>28,665</u>	\$ <u>29,706</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, 2007, contributions to the plan by the employer were \$5,321 and \$3,729 for the year ended December 31, 2006.