

**2016**  
**Financial Statements**  
**With**  
**Auditor's Letters**

GRACEWORKS MINISTRIES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016

(With Independent Auditor's Report Thereon)

GRACEWORKS MINISTRIES, INC.  
FINANCIAL STATEMENTS  
JUNE 30, 2016

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Audited Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11



## 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, 2016, 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, 2016, 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.

#### **Emphasis of Matter**

As discussed in Note 9 to the financial statements, beginning inventory was understated in previously issued financial statements. Our opinion is not modified with respect to that matter.

*Patterson Hardee & Ballentine*

November 11, 2016

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2016**

**ASSETS**

Current Assets:			
Cash	\$	314,884	
Inventory		383,952	
Prepaid expenses		<u>8,617</u>	
Total current assets	\$		705,453
Property and Equipment:			
Vehicles		116,887	
Property and equipment		103,700	
Leasehold improvements		<u>36,397</u>	
		256,984	
Less: accumulated depreciation		<u>(135,407)</u>	
Total property and equipment, net			121,577
Assets Whose Use Is Limited:			
Cash		399,647	
Contributions receivable		<u>312,231</u>	
Total assets whose use is limited			<u>711,878</u>
Total assets	\$		<u>1,538,908</u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:			
Accounts payable	\$	33,299	
Payroll liabilities		13,654	
Sales tax payable		<u>3,728</u>	
Total current liabilities	\$		<u>50,681</u>
Total liabilities			<u>50,681</u>
Net Assets:			
Unrestricted:			
Undesignated		776,349	
Board designated - client services		105,497	
Board designated - building improvements		<u>20,992</u>	
Total unrestricted net assets			902,838
Restricted Net Assets:			
Temporarily restricted		27,490	
Permanently restricted		<u>557,899</u>	
Total restricted net assets			<u>585,389</u>
Total net assets			<u>1,488,227</u>
Total liabilities and net assets	\$		<u>1,538,908</u>

See accompanying notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue:				
Fairview income	\$ 19,198	\$ -	\$ -	\$ 19,198
Store income	969,015	-	-	969,015
Business donations	92,114	-	-	92,114
Investment income, net	796	-	-	796
Fundraising	382,366	-	-	382,366
In-kind donation	1,716,261	-	-	1,716,261
Grants	147,626	-	-	147,626
Individual contributions	369,404	31,462	-	400,866
Endowment income	830	-	557,899	558,729
Church contributions	242,082	-	-	242,082
Net assets released from temporarily restricted	6,972	(6,972)	-	-
Total public support and revenue	<u>3,846,664</u>	<u>27,490</u>	<u>557,899</u>	<u>4,532,053</u>
Expenses:				
Program services				
Family support	1,228,205	-	-	1,228,205
Instructional programs	214,325	-	-	214,325
Seasonal needs	682,072	-	-	682,072
Hunger prevention	1,535,874	-	-	1,535,874
Total program services	<u>3,660,476</u>	<u>-</u>	<u>-</u>	<u>3,660,476</u>
Supporting Services				
Management and general	103,042	-	-	103,042
Fundraising & special events	176,641	-	-	176,641
Total supporting services	<u>279,683</u>	<u>-</u>	<u>-</u>	<u>279,683</u>
Total expenses	<u>3,940,159</u>	<u>-</u>	<u>-</u>	<u>3,940,159</u>
Increase (decrease) in net assets	<u>6,506</u>	<u>27,490</u>	<u>557,899</u>	<u>591,894</u>
Net assets - beginning of year, as previously reported	757,695	-	-	757,695
Prior period adjustment	<u>138,638</u>	<u>-</u>	<u>-</u>	<u>138,638</u>
Net assets - beginning of year, as restated	<u>896,333</u>	<u>-</u>	<u>-</u>	<u>896,333</u>
Net assets - end of year	<u>\$ 902,838</u>	<u>\$ 27,490</u>	<u>\$ 557,899</u>	<u>\$ 1,488,227</u>

See accompanying notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services				Supporting Services			
	Family Support	Instructional Programs	Seasonal Needs	Hunger Prevention	Program Total	Management and General	Fundraising & Special Events	Total
Salaries	\$ 178,564	\$ 178,564	\$ 178,564	\$ 178,563	\$ 714,254	\$ 39,240	\$ 39,240	\$ 792,734
Payroll taxes and benefits	30,710	30,709	30,709	30,709	122,837	6,748	6,748	136,333
Total payroll and related expenses	209,274	209,273	209,272	209,272	837,091	45,988	45,988	929,057
Bad debt expense	100	5	5	8	116	-	-	116
Building improvements	5,769	201	268	469	8,707	-	-	6,707
Capital campaign	-	-	-	-	-	-	-	-
Client services	577,435	-	489,712	1,327,189	2,368,346	-	3,288	3,288
Continuing education, memberships, and volunteer	2,925	-	-	-	2,925	152	152	3,249
Depreciation	15,810	-	-	-	15,810	878	878	17,568
Dues and subscriptions	1,650	-	-	-	1,650	92	92	1,834
Fairview store	17,220	601	801	1,402	20,024	-	-	20,024
Fundraising	900	-	-	-	900	-	54,542	55,442
General & IT repairs and maintenance	18,112	-	-	-	18,112	6,630	6,630	31,272
General administration expenses	20,392	-	-	-	20,392	1,130	1,130	22,592
In-kind expenses	25,262	-	-	-	25,262	1,403	1,403	28,068
Insurance	64,528	-	-	-	64,528	4,119	-	68,647
Licenses and fees	4,337	-	-	-	4,337	241	241	4,819
Marketing	-	-	-	-	-	-	7,603	7,603
Merchant and bank fees	33,553	1,170	1,561	2,731	39,015	-	-	39,015
Mileage and expense reimbursement	15,882	-	-	-	15,882	-	-	15,882
Miscellaneous	4,090	-	-	-	4,090	-	-	4,090
Office supplies	7,125	-	-	-	7,125	396	396	7,817
Outreach programming R&D	-	2,737	-	-	2,737	-	-	2,737
Postage and freight	3,821	-	-	-	3,821	3,708	3,708	11,237
Printing	5,811	-	-	-	5,811	323	323	6,457
Professional services	-	-	-	-	-	27,715	-	27,715
Property taxes	5,213	-	-	-	5,216	290	290	5,796
Rent	137,970	-	-	-	137,970	7,665	7,665	153,300
Store supplies	9,738	340	453	793	11,324	-	-	11,324
Utilities	41,445	-	-	-	41,445	2,302	2,302	46,049
	\$ 1,228,205	\$ 214,325	\$ 682,072	\$ 1,555,874	\$ 3,660,476	\$ 103,942	\$ 176,641	\$ 3,940,159

See accompanying notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows From Operating Activities:		
Increase in net assets		\$ 591,894
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	\$ 17,566	
Changes in:		
Pledgos receivable	9,642	
Inventory	(42,681)	
Prepaid expenses	10,114	
Security deposit	1,000	
Assets whose use is limited	(711,878)	
Accounts payable	33,299	
Payroll liabilities	8,302	
Sales tax payable	252	
Total adjustments		(674,384)
Net cash used in operating activities		(82,490)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(39,834)	
Net cash used in investing activities		(39,834)
Net decrease in cash		(122,324)
Cash - beginning of year		437,208
Cash - end of year		<u>\$ 314,884</u>

**Supplemental Cash Flow Information**

Interest paid during the year ended June 30, 2016, was \$0.



**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 dedicated to sharing the hope and grace of God by helping our neighbors in need united by a common loyalty to Jesus Christ.

**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:

**Family Support** - Helping neighbors in emergency situations with life necessities.

**Instructional Programs** - educating neighbors in financial independence, nutrition, and family guidance.

**Seasonal Needs** - Helping neighbors through the Manger Christmas gift program, backpacks and supplies, and holiday food boxes.

**Hunger Prevention** - Providing food items to under privileged families, weekend nutrition for school children, and mobile food pantries.

**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:

**Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets** - Net assets subject to donor-imposed stipulations that may, or will, be met by our actions 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.

**Permanently restricted net assets** - Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

**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, 2016, we had no cash equivalents.

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**Inventory**

Inventory consists of donated clothing, furniture, and household items. Inventory is recorded at the fair market value of subsequent sales. A prior period adjustment was made to account for the food pantry inventory. See NOTE 9.

**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, 2016, no allowance 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.

**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. Vacation pay is calculated based on each employee's regularly scheduled hours per week and is granted 90 days after hire date.

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising is expensed as incurred. Total advertising expense for the year ended June 30, 2016, was \$7,603.

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.

Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

NOTE 2 - Contributions Receivable

Each contributions receivable balance is a restricted asset based on the donor's wishes for their promise to give to be used for operations in the year they give the money. See NOTE 8. Once the time restriction has been satisfied, the receivables are released from restriction.

Restricted contributions receivable consisted of the following at June 30, 2016:

Due in less than one year	<u>\$ 312,231</u>
---------------------------	-------------------

NOTE 3 - Concentrations

Accounts Payable

At the year ended June 30, 2016, 100% of our total payables were due to three vendors.

NOTE 4 - Leases

We leased two copiers under operating leases during the year end June 30, 2016. The minimum monthly rental amount is \$144 for both copiers. 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 \$12,000 and the administration building adjacent to the warehouse for a monthly cost of \$1,000. We also currently lease the building at our Fairview location for \$3,533. The total yearly rent expense was \$153,300 for the year ended June 30, 2016.

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 – Leases (continued)**

A schedule of future minimum lease payments required under all non-cancelable operating leases as of June 30, 2016, follows:

Year Ending June 30,

2017	\$ 194,828
2018	186,396
2019	158,132
2020	<u>72,000</u>
	<u>\$ 611,356</u>

**NOTE 5 - Unrestricted Net Assets**

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

Client Services - This account is intended to provide funds necessary for the different programs.

Building Improvements - This account is intended to provide funds necessary for building improvements.

A summary of board designated net assets at June 30, 2016, is as follows:

Client Services	\$ 105,507
Building Improvements	<u>21,002</u>
	<u>\$ 126,509</u>

**NOTE 6 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following at June 30, 2016:

Restricted for building improvements	<u>\$ 27,490</u>
--------------------------------------	------------------

**NOTE 7 - Permanently Restricted Net Assets**

During the year ended June 30, 2016, GraceWorks Ministries, Inc. received a generous contribution totaling \$245,668 and a contribution receivable of \$312,231 to be invested into an endowment fund. As of June 30, 2016, the funds are held in a standard savings account. See NOTE 8.

**NOTE 8 - 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).

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 - Endowment Funds (continued)**

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.

*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* - due to the funds being donated close to the year end, an investment committee and spending policy have not been established as of June 30, 2016.

*Investment return objective, risk parameters and strategies* - due to the funds being donated close to the year end, an investment committee and investment policies have not been established as of June 30, 2016.

At June 30, 2016, our endowment funds were held in a standard savings account.

A schedule of endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	<u>Unrestricted (Deficit)</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ -	\$ -	\$ 557,899	\$ 557,899

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 - Prior Period Adjustment**

A prior period adjustment at the beginning of the fiscal year was made to correct errors in previously reported inventory and unrestricted net assets.

The following details the effect on each major financial statement line item:

		June 30, 2015	
	As previously reported	Prior Period Adjustment	Restated
<b>Assets:</b>			
Cash in bank and on hand	\$ 437,208	\$ -	\$ 437,208
Pledges receivable (net)	9,642	-	9,642
Inventory	202,633	138,638	341,271
Prepaid Expenses	16,730	-	16,730
Deposits	1,000	-	1,000
Furniture and vehicles – net of depreciation	99,310	-	99,310
<b>Total assets</b>	<b>\$ 766,523</b>	<b>\$ 138,638</b>	<b>\$ 905,161</b>
<b>Total liabilities</b>	<b>\$ 8,828</b>	<b>\$ -</b>	<b>\$ 8,828</b>
<b>Net Assets:</b>			
Unrestricted	574,928	138,638	713,566
Unrestricted – board designated	182,767	-	182,767
<b>Total unrestricted net assets</b>	<b>757,695</b>	<b>138,638</b>	<b>896,333</b>
Temporarily restricted	-	-	-
Permanently restricted	-	-	-
<b>Total net assets</b>	<b>757,695</b>	<b>138,638</b>	<b>896,333</b>
<b>Total liabilities and net assets</b>	<b>\$ 766,523</b>	<b>\$ 138,638</b>	<b>\$ 905,161</b>

**NOTE 10 – Contingencies**

From time to time, we may be and have been named as a defendant in a lawsuit. We do not believe that any claims have merit and intend to vigorously defend our position. We do not believe an accrual is necessary at June 30, 2016.

**NOTE 11 - Subsequent Events**

We have evaluated events subsequent to the year ending June 30, 2016. As of November 11, 2016, the date that the financial statements were available to be issued, no other events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the year ended June 30, 2016.



**PATTERSON, HARDEE & BALLENTINE, P.C.**

Certified Public Accountants

November 11, 2016

To the Board of Directors of  
GraceWorks Ministries, Inc.

We have audited the financial statements of GraceWorks Ministries, Inc. for the year ended June 30, 2016, and have issued our report thereon dated November 11, 2016. 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 October 17, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Graceworks are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. 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.

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

The disclosure of Note 1 to the consolidated financial statements explaining 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. The following material misstatements detected as a result of audit procedures were corrected by management: cash, accounts receivables, net assets, revenues, and expenses.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 11, 2016.

*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. We have also communicated in writing, other issues and findings in a letter dated November 11, 2016.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors 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 Harder & Ballentine*



**GraceWorks Ministries**  
**Statement of Uncorrected Misstatements**

June 30, 2016

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Reference	Financial Statement Effect—Amount of Over (Under) Statement of:						
				Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
Unrecorded AP	F	Was not recorded as AP	NN-2		-\$14,488			-\$14,488	\$14,488	-\$14,488
Temporarily restricted funds released - \$24,149	F	Funds released to unrestricted when they should have stayed in U-3	U-3						\$0	\$0
Recorded Prepaid	F	Board wanted 360 review expense in 2015-2016 year	G-1	\$13,400				\$13,400	-\$13,400	\$13,400
Fixed Assets	F	Was not recorded as Fixed Assets	I-1	\$5,068				\$5,068	-\$5,068	\$5,068
									\$0	\$0
									\$0	\$0
									\$0	\$0
									\$0	\$0
									\$0	\$0
									\$0	\$0
Total				\$18,468	-\$14,488	\$0	\$0	\$3,980	-\$3,980	\$3,980
Less Audit Adjustments Subsequently Booked									\$0	\$0
Unadjusted AD—Current Year (Iron Curtain Method)				\$18,468	-\$14,488	\$0	\$0	\$3,980	-\$3,980	\$3,980
Effect of Unadjusted AD—Prior Years										
Combined Current and Prior Year AD (Rollover Method)				\$18,468	-\$14,488	\$0	\$0	\$3,980	-\$3,980	\$3,980
Financial Statement Caption Totals				\$1,529,774	\$50,681	\$1,479,093	\$4,532,053	\$3,949,293	\$582,760	\$653,923
Current Year AD as % of FS Captions (Iron Curtain Method)				1.21%	-28.59%	0.00%	0.00%	0.10%	-0.68%	0.61%
Current and Prior Year AD as % of FS Captions (Rollover Method)				1.21%	-28.59%	0.00%	0.00%	0.10%	-0.68%	0.61%

**Conclusion:** Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, ☐ do not cause the financial statements taken as a whole to be materially misstated.



**PATTERSON, HARDEE & BALLENTINE, P.C.**

Certified Public Accountants

November 11, 2016

To the Board of Directors of  
GraceWorks Ministries, Inc.

In planning and performing our audit of the financial statements of GraceWorks Ministries, Inc. as of and for the year ended June 30, 2016, 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 audit 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in GraceWorks Ministries, Inc.'s internal control to be significant deficiencies:

- We noted GraceWorks Ministries, Inc. has segregation of duty deficiencies in the area of cash as follows:
  - The person who opens the mail also creates the deposit slip, makes the deposit, records amounts in the general ledger and reconciles the bank statement.
  - Work is not double checked on an unannounced basis.
  - There is no rotation of job duties for handling cash

While we understand that a complete segregation of duties is impractical in a small office with limited personnel, we believe some relatively minor changes could be made that would significantly improve controls. We've attached a table to help you separate the job duties that could be used for GraceWorks to help you separate your accounting functions to improve accounting controls.

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 11, 2016

Segregation of Duties Table to Improve Internal Controls

Control Activity	Number of Employees		
	2	3	4
<b>Cash</b>			
Physical access to undeposited funds	B	B	B
Open & review bank statement	A	A	A
Reconcile bank statement	B	C	D
<b>Sales &amp; Accounts Receivable</b>			
Create invoices	B	B	B
Open mail/receive & list receipts	A	C	C
Enter receipts into general ledger	B	B	B
Prepare bank deposit	B	C	C
Review accounts receivable aging	A	A	A
Void invoices and/or create credit memos	A	A	D
<b>Expenses &amp; Accounts Payable</b>			
Approve invoices	A	A	D
Write/print checks	B	C	C
Sign checks	A	A	A
Review accounts payable aging	A	A	A
Void checks and/or create debit memos	A	A	D
<b>Payroll</b>			
Approve time cards/salary amounts	A	A	D
Prepare payroll checks	B or vendor	B or vendor	B or vendor
Sign payroll checks	A	A	A
Distribute payroll checks	A	A	D

Table Key-Duties to be Performed by:

A - Owner or top manager

C - Secondary accounting assistant

B - Primary accounting assistant (or an office manager)

D - Another manager level employee





## PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

November 11, 2016

To the Board of Directors of  
GraceWorks Ministries, Inc.

In planning and performing our audit of the financial statements of GraceWorks as of and for the year ended June 30, 2016, 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. A separate letter dated November 11, 2016, contains our communication of significant deficiencies or material weaknesses in the Organization's internal control. This letter does not affect our report dated November 11, 2016, on the financial statements of GraceWorks.

### **Cash Disbursements: Blank Checks**

Our Internal Control Questionnaire revealed GraceWorks Ministries, Inc. does not have a written prohibition against signing checks in advance (blank checks). This opens the door for fraud, misappropriation, and mistakes. We suggest that GraceWorks Ministries, Inc. implement a responsible and practical written policy.

### **Support for Cash Disbursements Needed**

In several instances, we noted that check copies were the sole documentation retained in support of disbursements. To provide adequate disbursement documentation, not only for audit purposes but also and particularly for tax purposes, a copy of the invoice, or a check request form containing a description of the purpose and approvals when there is no invoice, should be retained for each disbursement. We suggest that this practice be initiated as soon as possible.

### **Endowment Fund**

The Uniform Prudent Management of Institutional Funds Act of 2006 (UMPIFA) requires restrictions on contributions and activities must be classified as either Unrestricted, Temporarily Restricted, or Permanently restricted. Financial accounting standards also require additional disclosures about the endowment funds, whether or not you are subject to UMPIFA. We recommend that a committee be established to insure that GraceWorks Ministries, Inc. is in compliance with disclosure requirements, as well as establishing spending and investment policies for endowments (permanently restricted funds).

### **Maintain Summary Schedule of Grants**

There is no summary schedule kept for GraceWorks Ministries, Inc.'s grants. We suggest GraceWorks Ministries, Inc. maintain a summary schedule of its grants, which should include the amount, term, dates of receipt, reporting requirements, any restrictions, and other pertinent information.

### **Allocation of Expenses**

During our audit procedures, it was noted that the GraceWorks Ministries, Inc. Board does not approve method for allocating expenses. We strongly recommend GraceWorks Ministries, Inc. choose an acceptable method for allocating expenses and that the Board approves the method.

### **Excessive Journal Entries**

During audit procedures, we noted no approvals for multiple journal entries made. We recommend a second employee to review all entries made for accuracy along with an approval, as well as maintaining proper support for the entry.

### **Accounting Manual Needed**

During our audit, we noted that GraceWorks Ministries, Inc. does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual should include:

- An organizational chart
- Job descriptions, outlining duties and responsibilities
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions
- A chart of accounts with detailed explanation of the items to be included therein
- Any other documents or forms for which uniformity of use is desired

We recommend that GraceWorks Ministries, Inc. develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

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.

As always, thank you for your business, and please call us with any questions!

*Patterson Harder & Ballentine*