

GRACEWORKS MINISTRIES, INC.

DECEMBER 31, 2009 AND 2008

Report

of

Examination

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INDEPENDENT AUDITOR'S REPORT

June 20, 2010

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, 2009 and 2008 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, 2009 and 2008, 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>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$ 148,007	\$ 38,546
Inventory	110,550	120,024
Investment account	8,657	8,726
Prepaid expenses	4,748	10,304
Furniture and vehicles - net of depreciation	<u>33,568</u>	<u>45,830</u>
<u>Total Assets</u>	<u>\$ 305,530</u>	<u>\$ 223,430</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 9,379	\$ 6,717
Accrued wages	0	4,132
Sales tax payable	<u>2,442</u>	<u>2,295</u>
<u>Total Liabilities</u>	<u>11,821</u>	<u>13,144</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	153,965	93,269
Designated	<u>139,744</u>	<u>117,017</u>
<u>Total Unrestricted Net Assets</u>	<u>293,709</u>	<u>210,286</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 305,530</u>	<u>\$ 223,430</u>

See notes to financial statements.

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

	<u>Unrestricted</u>	
	<u>2009</u>	<u>2008</u>
<u>Support and Revenue</u>		
Contributions	\$ 426,470	\$ 369,526
Government	32,242	43,074
Sales - Graceworks Store	454,547	471,202
Food pantry	466,400	183,015
In-kind donations	62,000	0
Special Events	90,268	59,405
Investment income	30	1,005
Other	1,750	0
Unrealized gain (loss) on investments	63	(1,813)
<u>Total Support and Revenue</u>	<u>1,533,770</u>	<u>1,125,414</u>
 <u>Expenses</u>		
Program	1,312,730	1,030,551
Management	76,156	70,036
Fundraising	61,461	99,692
<u>Total Expenses</u>	<u>1,450,347</u>	<u>1,200,279</u>
 Change in Net Assets	83,423	(74,865)
 Net Assets - January 1	210,286	285,151
 Net Assets - December 31	\$ <u>293,709</u>	\$ <u>210,286</u>

See notes to financial statements.

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

	2009			2008				
	Program Services	Management & General	Fund Raising	Total	Program Services	Management & General	Fund- Raising	Total
	\$ 12,687	\$	\$	\$ 12,687	\$ 4,303	\$	\$	\$ 4,303
Cost of goods sold	738,378			738,378	445,296			445,296
Assistance programs	1,650			1,650	1,800			1,800
Meals on Wheels donation	1,810		5,333	7,143	2,092		6,430	8,522
Printing	323,266	25,851	9,358	358,475	339,795	30,566	36,923	407,284
Salaries and wages	28,710	2,233	957	31,900	27,713	2,504	3,172	33,389
Payroll taxes	85,337	4,741	4,741	94,819	99,012	5,500	5,501	110,013
Rent				0			12,000	12,000
Grant writing								
Telephone and utilities	42,158	2,342	2,342	46,842	37,859	2,103	2,104	42,066
Office supplies and equipment	10,768	598	598	11,964	10,831	602	602	12,035
Insurance	22,157	1,478		23,635	10,126	1,251		11,377
Advertising	414	532	320	1,266	1,975	1,975		3,950
Vehicle expense	6,263			6,263	6,669			6,669
Payroll processing	2,238	174	75	2,487	4,433	427	481	5,341
Repairs and maintenance	8,724	3,216	3,216	15,156	17,271	960	960	19,191
Fundraising expense			33,878	33,878			30,117	30,117
Professional fees		6,575		6,575		2,920		2,920
Mileage	9,497			9,497	3,421			3,421
Employee benefits	3,365	261	112	3,738	7,269	657	832	8,758
Contract labor		18,995		18,995	2,605			2,605
Continuing education	320	144		464	250	924		1,174
Dues and subscriptions		700		700		743		743
Taxes and licenses		568		568		444		444
Bank charges	6,073			6,073		5,636		5,636
Postage	530	530	531	1,591	570	570	570	1,710
Other	2,506			2,506	1,382	1,774		3,156
Depreciation	5,879	7,218		13,097	5,879	10,480		16,359
Total	\$ 1,312,730	\$ 76,156	\$ 61,461	\$ 1,450,347	\$ 1,030,551	\$ 70,036	\$ 99,692	\$ 1,200,279

See notes to financial statements.

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

	<u>2009</u>	<u>2008</u>
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$ 458,712	\$ 412,600
Cash received from store sales	454,547	471,202
Cash received from other sources	92,048	60,410
Cash paid for assistance programs	(202,154)	(262,281)
Cash paid for salaries and related expenses	(398,245)	(445,299)
Cash paid for rent	(94,819)	(110,013)
Cash paid for other program services	(126,120)	(100,154)
Cash paid for other management and general expenses	(27,355)	(19,829)
Cash paid for other fundraising expenses	(46,318)	(53,264)
Net cash provided (used) by operating activities	<u>110,296</u>	<u>(46,628)</u>
<u>Cash flow from financing activities</u>		
Purchase of equipment	(835)	(3,712)
Net increase (decrease) in cash and cash equivalents	<u>109,461</u>	<u>(50,340)</u>
Cash and cash equivalents - January 1	38,546	88,886
Cash and cash equivalents - December 31	\$ <u>148,007</u>	\$ <u>38,546</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND 2008

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, 2009 and 2008.

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, 2009 and 2008.

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, 2009 AND 2008

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 \$22,727 for 2009 and \$22,655 for 2008.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Undesignated	\$ 153,965	\$ 93,269
Designated for endowment purposes	<u>139,744</u>	<u>117,017</u>
	\$ <u>293,709</u>	\$ <u>210,286</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>2009</u>	<u>2008</u>
Office equipment	\$ 70,940	\$ 70,105
Leasehold improvements	12,427	12,427
Vehicles	<u>40,528</u>	<u>40,528</u>
	123,895	123,060
Accumulated depreciation	(90,327)	(77,230)
	\$ <u>33,568</u>	\$ <u>45,830</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: 2010 \$ 97,308

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND 2008

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, 2009 and 2008, 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, 2009 consists of:

	<u>Cost</u>	<u>Fair Market</u>
Stocks	\$ 1,600	\$ 964
Cash equivalents	<u>7,693</u>	<u>7,693</u>
	\$ <u>9,293</u>	\$ <u>8,657</u>

NOTE 7 - RETIREMENT PLAN

The Organization had approved a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan for the employees. The plan was terminated on June 30, 2009. 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.

Contributions to the plan by the employer were \$3,558 for the year ended December 31, 2009 and \$6,119 for the year ended December 31, 2008,