

GRACEWORKS MINISTRIES, INC.

JUNE 30, 2012

Report
of
Examination

C O N T E N T S

Pages

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4 - 5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 10

PARSONS AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

234 4th Avenue North

P. O. BOX 604

FRANKLIN, TENNESSEE 37065

TELEPHONE # 615-794-4313

FAX # 615-595-2297

DAN H. PARSONS, CPA
PATRICIA L. PARSONS, CPA

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

January 15, 2013

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 June 30, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the year and six months 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 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 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 June 30, 2012 and 2011, and the results of its operations and its cash flows for the year and six months then ended in conformity with accounting principles generally accepted in the United States of America.



Parsons and Associates

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash in bank and on hand	\$ 167,063	\$ 246,774
Inventory	123,189	124,069
Prepaid expenses	14,127	5,224
Furniture and vehicles - net of depreciation	<u>31,309</u>	<u>38,985</u>
<u>Total Assets</u>	\$ <u>335,688</u>	\$ <u>415,052</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 704	\$ 3,310
Accrued wages	4,397	2,070
Payroll tax liabilities	2,770	1,444
Sales tax payable	2,660	2,045
Note payable - copier	<u>2,854</u>	<u>7,765</u>
<u>Total Liabilities</u>	<u>13,385</u>	<u>16,634</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets:		
Undesignated	214,150	247,458
Board designated	100,709	150,960
Temporarily restricted Net Assets	<u>7,444</u>	<u>0</u>
<u>Total Unrestricted Net Assets</u>	<u>322,303</u>	<u>398,418</u>
<u>Total Liabilities and Net Assets</u>	\$ <u>335,688</u>	\$ <u>415,052</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES
JUNE 30

	<u>Year Ended June 30, 2012</u>		<u>Six Months Ended June 30, 2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>
<u>Support and Revenue</u>			
Contributions`	\$ 512,510	\$ 7,444	\$ 141,037
Government	31,012		32,728
Sales - Graceworks Store	547,130		199,697
Food pantry	551,895		277,165
Special Events	156,432		48,546
Investment income	1,401		269
Other	0		430
<u>Total Support and Revenue</u>	<u>1,800,380</u>	<u>7,444</u>	<u>699,872</u>
<u>Expenses</u>			
Program	1,601,159		684,283
Management	100,732		37,710
Fundraising	182,048		30,204
<u>Total Expenses</u>	<u>1,883,939</u>		<u>752,197</u>
Change in Net Assets	(83,559)	7,444	(52,325)
Net Assets - July 1	398,418	0	450,743
Net Assets - June 30	\$ <u>314,859</u>	\$ <u>7,444</u>	\$ <u>398,418</u>

See notes to financial statements.

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

	<u>Program Services</u>	<u>Management & 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 FUNCTIONAL EXPENSES
SIX MONTHS ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Assistance programs	\$ 386,839	\$	\$	\$ 386,839
Meals on Wheels donation	900			900
Printing	1,593		4,777	6,370
Salaries and wages	170,149	14,179	4,726	189,054
Payroll taxes	16,577	1,381	461	18,419
Rent	48,819	2,712	2,712	54,243
Telephone and utilities	18,110	1,006	1,006	20,122
Office supplies and equipment	2,146	119	119	2,384
Insurance	9,986	694		10,680
Advertising	223	283	169	675
Vehicle expense	1,039			1,039
Store expense/maintenance	5,666			5,666
Repairs and maintenance	3,406	1,135	1,135	5,676
Fundraising expense			14,456	14,456
Professional fees		4,431		4,431
Mileage	3,295			3,295
Employee benefits	1,027	86	28	1,141
Contract labor		9,473		9,473
Continuing education	807	346		1,153
Dues and subscriptions		428		428
Taxes and licenses		821		821
Bank charges	4,182			4,182
Postage	470	470	470	1,410
Disaster relief expense	141			141
Copier supplies/usage	291	146	145	582
Other	1,396			1,396
Depreciation	7,221			7,221
<u>Total</u>	<u>\$ 684,283</u>	<u>\$ 37,710</u>	<u>\$ 30,204</u>	<u>\$ 752,197</u>

See notes to financial statements.

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

	Year Ended June 30, 2012	Six Months Ended June 30, 2011
<u>Cash flows from operating activities</u>		
Cash received from contributors and grants	\$ 441,466	\$ 173,765
Cash received from store sales	519,294	208,321
Cash received from other sources	157,833	49,245
Cash paid for assistance programs	(280,725)	(109,672)
Cash paid for salaries and related expenses	(512,621)	(206,993)
Cash paid for rent	(129,995)	(45,134)
Cash paid for other program services	(105,514)	(53,439)
Cash paid for other management and general expenses	(44,332)	(19,344)
Cash paid for other fundraising expenses	(113,119)	(23,914)
Net cash provided (used) by operating activities	(67,713)	(27,165)
<u>Cash flow from financing activities</u>		
Purchase of equipment	(7,087)	0
<u>Cash flow from investing activities</u>		
Payments on loan	(4,911)	(2,456)
Investment account disbursement	0	8,550
Net cash provided (used) by investing activities	(4,911)	6,094
Net increase (decrease) in cash and cash equivalents	(79,711)	(21,071)
Cash and cash equivalents - beginning	246,774	267,845
Cash and cash equivalents - ending	\$ <u>167,063</u>	\$ <u>246,774</u>

See notes to financial statements.

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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.

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, 2012 and 2011.

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 JUNE 30, 2012

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.

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>6-30-12</u>	<u>6-30-11</u>
Unrestricted		
Undesignated	\$ 214,150	\$ 247,458
Board designated - capital campaign	(50,251)	0
Board designated - other	<u>150,960</u>	<u>150,960</u>
Total Unrestricted	\$ <u>314,859</u>	\$ <u>398,418</u>
Temporarily Restricted		
Food pantry	\$ 3,000	
Air-conditioner	2,544	
Fuel bags	<u>1,900</u>	
Total Temporarily Restricted	\$ <u>7,444</u>	

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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 June 30:

	<u>2012</u>	<u>2011</u>
Office equipment	\$ 98,517	\$ 97,987
Leasehold improvements	15,271	12,427
Vehicles	<u>40,528</u>	<u>40,528</u>
	154,316	150,942
Accumulated depreciation	<u>(123,007)</u>	<u>(111,957)</u>
	\$ <u>31,309</u>	\$ <u>38,985</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 2012 - June 2013	\$ 136,500
July 2013 - June 2014	136,500
July 2014 - June 2015	136,500
July 2015 - June 2016	136,500

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

GRACEWORKS MINISTRIES, Inc.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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 year and six months ended June 30, 2012 and 2011.