

**2018**  
**Financial Statements**  
**With**  
**Auditor's Letters**

GRACEWORKS MINISTRIES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017

(With Independent Auditor's Report Thereon)

**GRACEWORKS MINISTRIES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

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## 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, 2018, 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, 2018, 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.

#### **Report on Summarized Comparative Information**

We have previously audited the GraceWorks Ministries, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Patterson Hardee & Ballentine*

December 14, 2018

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

ASSETS

|                                   | <u>2018</u>         | <u>2017</u>         |
|-----------------------------------|---------------------|---------------------|
| Current Assets:                   |                     |                     |
| Cash                              | \$ 219,508          | \$ 318,029          |
| Accounts receivable               | -                   | 4,000               |
| Inventory                         | 574,917             | 439,903             |
| Prepaid expenses                  | 22,172              | 7,261               |
| Total current assets              | <u>816,597</u>      | <u>769,193</u>      |
| Property and Equipment:           |                     |                     |
| Vehicles                          | 138,596             | 116,887             |
| Property and equipment            | 69,668              | 112,057             |
| Leasehold improvements            | 40,712              | 36,397              |
|                                   | <u>248,976</u>      | <u>265,341</u>      |
| Less: accumulated depreciation    | <u>(135,717)</u>    | <u>(156,888)</u>    |
| Total property and equipment, net | 113,259             | 108,453             |
| Assets Whose Use is Limited:      |                     |                     |
| Cash                              | 580,782             | 131,787             |
| Investment - endowment            | 498,041             | 565,644             |
| Total assets whose use is limited | <u>1,078,823</u>    | <u>697,431</u>      |
| Total assets                      | <u>\$ 2,008,679</u> | <u>\$ 1,575,077</u> |

LIABILITIES AND NET ASSETS

|  |                     |                     |
|--|---------------------|---------------------|
| Current Liabilities:                     |                     |                     |
| Accounts payable                         | \$ -                | \$ 14,076           |
| Payroll liabilities                      | 25,232              | 14,016              |
| Sales tax payable                        | 3,794               | 3,407               |
| Deferred revenue                         | 55,880              | 37,210              |
| Accrued expenses                         | 15,167              | 13,597              |
| Total current liabilities                | <u>100,073</u>      | <u>82,306</u>       |
| Total liabilities                        | <u>100,073</u>      | <u>82,306</u>       |
| Net Assets:                              |                     |                     |
| Unrestricted:                            |                     |                     |
| Undesignated                             | 829,783             | 795,340             |
| Board designated - client services       | 71,560              | 75,626              |
| Board designated - building improvements | 16,632              | 16,632              |
| Board designated - future use            | 216,893             | -                   |
| Board designated - endowment             | 1,144               | 2,206               |
| Total unrestricted net assets            | <u>1,136,012</u>    | <u>889,804</u>      |
| Restricted Net Assets:                   |                     |                     |
| Temporarily restricted                   | 209,156             | 39,529              |
| Permanently restricted                   | 563,438             | 563,438             |
| Total restricted net assets              | <u>772,594</u>      | <u>602,967</u>      |
| Total net assets                         | <u>1,908,606</u>    | <u>1,492,771</u>    |
| Total liabilities and net assets         | <u>\$ 2,008,679</u> | <u>\$ 1,575,077</u> |

See accompanying notes to financial statements.



**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

|  | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total<br>2018 | Total<br>2017 |
|--|--------------|---------------------------|---------------------------|---------------|---------------|
| Public Support and Revenue:                        |              |                           |                           |               |               |
| Gross special event revenue                        | \$ 427,809   | \$ -                      | \$ -                      | \$ 427,809    | \$ 531,105    |
| Less direct cost of special events                 | 100,292      |                           |                           | 100,292       | 99,208        |
| Net special events revenue                         | 327,517      | -                         | -                         | 327,517       | 431,897       |
| Public Support:                                    |              |                           |                           |               |               |
| Store income                                       | 1,005,560    | -                         | -                         | 1,005,560     | 936,618       |
| Business donations                                 | 33,145       | 14,835                    | -                         | 47,980        | 118,923       |
| Investment income, net                             | (1,184)      | -                         | 823                       | (361)         | 2,843         |
| In-kind donation                                   | 3,531,091    | -                         | -                         | 3,531,091     | 2,260,503     |
| Grants   | 390,010      | 154,390                   | -                         | 544,400       | 232,716       |
| Individual contributions                           | 439,693      | 81,604                    | -                         | 521,297       | 441,965       |
| Endowment income                                   | -            | -                         | -                         | -             | 4,804         |
| Other income                                       | 5,838        | -                         | -                         | 5,838         | -             |
| Church contributions                               | 295,891      | -                         | -                         | 295,891       | 230,968       |
| Net assets released<br>from temporarily restricted | 82,025       | (81,202)                  | (823)                     | -             | -             |
| Total public support                               | 5,782,069    | 169,627                   | -                         | 5,951,696     | 4,229,340     |
| Total public support and revenue                   | 6,109,586    | 169,627                   | -                         | 6,279,213     | 4,661,237     |
| Expenses:  |              |                           |                           |               |               |
| Program services                                   |              |                           |                           |               |               |
| Family support                                     | 1,628,784    | -                         | -                         | 1,628,784     | 1,027,592     |
| Instructional programs                             | 156,121      | -                         | -                         | 156,121       | 167,375       |
| Seasonal needs                                     | 429,923      | -                         | -                         | 429,923       | 709,674       |
| Hunger prevention                                  | 3,011,230    | -                         | -                         | 3,011,230     | 2,239,214     |
| Total program services                             | 5,226,058    | -                         | -                         | 5,226,058     | 4,143,855     |
| Supporting Services                                |              |                           |                           |               |               |
| Management and general                             | 327,315      | -                         | -                         | 327,315       | 266,498       |
| Fundraising & special events                       | 310,005      | -                         | -                         | 310,005       | 246,340       |
| Total supporting services                          | 637,320      | -                         | -                         | 637,320       | 512,838       |
| Total expenses                                     | 5,863,378    | -                         | -                         | 5,863,378     | 4,656,693     |
| Increase (decrease) in net assets                  | 246,208      | 169,627                   | -                         | 415,835       | 4,544         |
| Net assets - beginning of year                     | 889,804      | 39,529                    | 563,438                   | 1,492,771     | 1,488,227     |
| Net assets - end of year                           | \$ 1,136,012 | \$ 209,156                | \$ 563,438                | \$ 1,908,606  | \$ 1,492,771  |

See accompanying notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

|   | Program Services |                        |                |                   |               | Supporting Services    |                              | Total        | Total        |
|---|------------------|------------------------|----------------|-------------------|---------------|------------------------|------------------------------|--------------|--------------|
|   | Family Support   | Instructional Programs | Seasonal Needs | Hunger Prevention | Total Program | Management and General | Fundraising & Special Events | 2018         | 2017         |
| Salaries  | \$ 143,211       | \$ 53,704              | \$ 119,343     | \$ 280,456        | \$ 596,714    | \$ 208,919             | \$ 172,908                   | \$ 978,541   | \$ 794,296   |
| Payroll taxes and benefits  | 13,955           | 5,234                  | 11,630         | 27,331            | 58,150        | 20,359                 | 16,850                       | 95,359       | 110,425      |
| Total payroll and related expenses  | 157,166          | 58,938                 | 130,973        | 307,787           | 654,864       | 229,278                | 189,758                      | 1,073,900    | 904,721      |
| Advertising   | -                | -                      | -              | -                 | -             | -                      | 3,621                        | 3,621        | 4,245        |
| Bad debt expense  | -                | -                      | -              | -                 | -             | 3,073                  | -                            | 3,073        | 15           |
| Client services   | 621,084          | 17,903                 | 61,111         | 75,969            | 776,067       | -                      | -                            | 776,067      | 3,177,465    |
| Continuing education, memberships, and volunteer                              | 205              | 20                     | 61             | 123               | 409           | 1,145                  | 82                           | 1,636        | 3,009        |
| Depreciation and amortization   | 11,239           | 1,124                  | 3,372          | 6,743             | 22,478        | 1,249                  | 1,249                        | 24,976       | 21,481       |
| Dues and subscriptions  | 481              | 48                     | 144            | 289               | 962           | 4,425                  | 4,232                        | 9,619        | 345          |
| Fundraising   | -                | -                      | -              | -                 | -             | -                      | 100,292                      | 100,292      | 99,208       |
| General & IT repairs and maintenance  | 14,341           | 1,434                  | 4,302          | 8,605             | 28,682        | 14,341                 | 14,341                       | 57,364       | 40,252       |
| General administration expenses   | 12,292           | 1,229                  | 3,688          | 7,375             | 24,584        | 4,677                  | 4,607                        | 33,868       | 22,639       |
| In-kind expenses  | 616,635          | 61,664                 | 184,991        | 2,521,779         | 3,385,069     | -                      | -                            | 3,385,069    | 42,101       |
| Insurance   | 12,759           | 1,276                  | 3,828          | 7,655             | 25,518        | 5,468                  | 5,468                        | 36,454       | 57,098       |
| Licenses and fees   | 6,325            | -                      | -              | -                 | 6,325         | -                      | -                            | 6,325        | 11,661       |
| Merchant and bank fees  | 51,414           | -                      | -              | -                 | 51,414        | -                      | -                            | 51,414       | 42,507       |
| Mileage and expense reimbursement   | 3,296            | 329                    | 988            | 1,976             | 6,589         | 1,029                  | 3,499                        | 11,117       | 22,867       |
| Miscellaneous   | -                | -                      | -              | -                 | -             | -                      | -                            | -            | 772          |
| Office supplies   | 6,686            | 669                    | 2,006          | 4,012             | 13,373        | 5,349                  | 8,024                        | 26,746       | 8,299        |
| Outreach programming R&D  | 294              | 30                     | 89             | 177               | 590           | -                      | -                            | 590          | -            |
| Postage and freight   | 1,103            | 110                    | 331            | 662               | 2,206         | 2,207                  | 6,620                        | 11,033       | 9,642        |
| Printing  | 724              | 73                     | 218            | 435               | 1,450         | 1,450                  | 6,768                        | 9,668        | 4,322        |
| Professional services   | -                | -                      | -              | -                 | -             | 34,238                 | -                            | 34,238       | 10,926       |
| Property taxes  | 4,039            | 404                    | 1,212          | 2,423             | 8,078         | -                      | -                            | 8,078        | 8,487        |
| Rent  | 74,408           | 7,441                  | 22,322         | 44,645            | 148,816       | 14,519                 | 54,445                       | 217,780      | 189,747      |
| Store supplies  | 7,261            | 726                    | 2,178          | 4,356             | 14,521        | -                      | -                            | 14,521       | 8,408        |
| Utilities   | 27,032           | 2,703                  | 8,109          | 16,219            | 54,063        | 4,867                  | 7,291                        | 66,221       | 65,684       |
| Total expenses by function  | 1,628,784        | 156,121                | 429,923        | 3,011,230         | 5,226,058     | 327,315                | 410,297                      | 5,963,670    | 4,755,901    |
| Less expense included with revenues on the statement of activities:           |                  |                        |                |                   |               |                        |                              |              |              |
| Direct cost of special events   | -                | -                      | -              | -                 | -             | -                      | (100,292)                    | (100,292)    | (99,208)     |
| Total expenses included in the expense section on the statement of activities | \$ 1,628,784     | \$ 156,121             | \$ 429,923     | \$ 3,011,230      | \$ 5,226,058  | \$ 327,315             | \$ 310,005                   | \$ 5,863,378 | \$ 4,656,693 |

See accompanying notes to financial statements.

**GRACEWORKS MINISTRIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

|  | <u>2018</u>              | <u>2017</u>              |
|--|--------------------------|--------------------------|
| Cash Flows From Operating Activities:  |                          |                          |
| Increase in net assets   | \$ 415,835               | \$ 4,544                 |
| Adjustments to reconcile increase in net assets<br>to net cash provided by (used in) operating activities: |                          |                          |
| Depreciation and amortization  | 24,976                   | 21,481                   |
| Changes in:  |                          |                          |
| Accounts receivable  | 4,000                    | (4,000)                  |
| Inventory  | (135,014)                | (55,951)                 |
| Prepaid expenses   | (14,911)                 | (644)                    |
| Assets whose use is limited  | (381,392)                | 14,447                   |
| Accounts payable   | (14,076)                 | (5,626)                  |
| Credit card payable  | 1,570                    | -                        |
| Payroll liabilities  | 11,216                   | 362                      |
| Sales tax payable  | 387                      | (321)                    |
| Deferred revenue   | 18,670                   | 37,210                   |
| Total adjustments  | <u>(484,574)</u>         | <u>6,958</u>             |
| Net cash provided by (used in) operating activities  | (68,739)                 | 11,502                   |
| Cash Flows From Investing Activities:  |                          |                          |
| Proceeds from sale of property and equipment   | 902                      | -                        |
| Purchase of property and equipment   | <u>(30,684)</u>          | <u>(8,357)</u>           |
| Net cash used in investing activities  | <u>(29,782)</u>          | <u>(8,357)</u>           |
| Net increase (decrease) in cash  | (98,521)                 | 3,145                    |
| Cash - beginning of year   | <u>318,029</u>           | <u>314,884</u>           |
| Cash - end of year   | <u><u>\$ 219,508</u></u> | <u><u>\$ 318,029</u></u> |

See accompanying notes to financial statements.



**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

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. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

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.

Prior Year Summarized Financial Information

While comparative information is not required under United States generally accepted accounting principles ("US GAAP"), we believe this information is useful and have included certain summarized financial information from our 2017 financial statements. Such summarized information is not intended to be a complete presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with our financial statements as of and for the year ended June 30, 2017, from which it was derived.

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

NOTE 1 - Summary of Significant Accounting Policies (continued)

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, 2018 and June 30, 2017, we had no cash equivalents.

Inventory

GraceWorks tracks inventory for its thrift store and food pantry, which are items that are donated to the organization. Accounting principles generally accepted in the United States of America require that contributions be recognized as revenue when received.

*Thrift Store Inventory:*

The organization considers the value of contributed merchandise to be equal to the value of the annual thrift store revenue. Management estimates that all thrift store donations exit the store within three months' time, therefore the value of the thrift store inventory equals three months of subsequent sales.

*Food Pantry Inventory:*

The organization considers the value of contributed food to be equal to the number of food carts and fuel bags distributed to community members (neighbors). Food cart value is based on the average weight of the food carts multiplied by \$1.73, which is a donated food value issued in the most recent KMPG report from Feeding America. Fuel Bags values were determined by auditing the actual retail price of contents contained in each fuel bag. Management estimates GraceWorks maintains a month and a half of food on premises, therefore the value of the food pantry inventory equals the value of the subsequent 1.5 months of food distributed to our neighbors.

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, 2018 and June 30, 2017, no allowance was 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.



**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. Paid time off is calculated based on each employee's regularly scheduled hours per week and is granted 90 days after hire date. As of the 2018 fiscal year, an employee can carry over up to 40 hours of paid time off at the end of the fiscal year into the new year. At June 30, 2017, if the employee didn't use their paid time off by the fiscal year end, they would lose the time and would not be compensated for it.

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 years ended June 30, 2018 and June 30, 2017, were \$3,621 and \$4,245, respectively.

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 fair values of current assets, current liabilities, and restricted cash approximate the carrying values due to the short maturities of these instruments and they are all Level 1 in the fair value hierarchy.

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassifications

Certain accounts in the June 30, 2017, financial statements have been reclassified for comparative purposes to conform to the presentation of the June 30, 2018, financial statements.

NOTE 2 - Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, and various grant, contract and contributions receivable. Grant, contract and contributions receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Three vendors represented 100% of our total accounts payable at June 30, 2017. One donor represented 100% of total accounts receivable at June 30, 2017.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe this exposes us to any significant credit risk on our cash.

NOTE 3 - Investments

Investments consisted of the following at June 30, 2018:

|                       |                   |
|-----------------------|-------------------|
| Bond Funds            | \$ 247,477        |
| Equity Funds          | 152,384           |
| Exchange Traded Funds | <u>98,180</u>     |
|                       | <u>\$ 498,041</u> |

The entire investment balance at June 20, 2018, was permanently restricted, see NOTE 7.

NOTE 4 - Leases

We leased two copiers under operating leases during the year end June 30, 2017. The minimum monthly rental amount is \$360 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 per month. The total yearly rent expense was \$223,227 for the year ended June 30, 2018, which includes \$5,447 for the copiers that is in the General & IT repairs and maintenance line on the statement of functional expenses and \$194,989 for June 30, 2017, which includes \$5,242 for the copiers that is in the General & IT repairs and maintenance line on the statement of functional expenses.

A schedule of future minimum lease payments required under all non-cancelable operating leases as of June 30, 2018, is as follows:

Year Ending June 30,

|      |                   |
|------|-------------------|
| 2019 | \$ 158,919        |
| 2020 | 148,320           |
| 2021 | <u>3,600</u>      |
|      | <u>\$ 310,839</u> |



**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**  
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

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.

Endowment - This account is intended to hold the excess realized annual income and the excess of the market value of the corpus that is to remain with the endowment at all times per the investment policy.

A summary of board designated net assets at June 30, 2018 and 2017, is as follows:

|  | <u>2018</u>       | <u>2017</u>      |
|--|-------------------|------------------|
| Client Services                        | \$ 71,560         | \$ 75,626        |
| Building Improvements                  | 16,632            | 16,632           |
| Set Aside for Future Use               | 216,893           | -                |
| Endowment – Neighbor Services programs | 1,144             | 2,206            |
|  | <u>\$ 306,229</u> | <u>\$ 94,464</u> |

NOTE 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2018 and June 30, 2017:

|                                | <u>2018</u>       | <u>2017</u>      |
|--------------------------------|-------------------|------------------|
| Building improvements          | \$ 13,172         | \$ 27,490        |
| Backpacks                      | 13,427            | 1,148            |
| Vehicles                       | 154,390           | -                |
| Manger                         | 21,267            | -                |
| Our Little Angels              | 6,900             | -                |
| Restricted for client services | -                 | 10,891           |
|                                | <u>\$ 209,156</u> | <u>\$ 39,529</u> |

NOTE 7 - Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30, 2018 and June 30, 2017:

|                 | <u>2018</u> | <u>2017</u> |
|-----------------|-------------|-------------|
| Endowment funds | \$ 563,438  | \$ 563,438  |

As of June 30, 2018, the funds are shown on the statement of financial position as follows:

|                              |                |
|------------------------------|----------------|
| Cash and money market funds  | \$ 66,541      |
| Investments (NOTE 3)         | 498,041        |
|                              | 564,582        |
| Board designated - endowment | (1,144)        |
| Permanently restricted       | <u>563,438</u> |



**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017**

**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).

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* - we have a policy of appropriating for distribution each year a maximum payout up to the total earnings from the funds in excess of the original corpus value. Withdrawal of funds cannot cause the account to fall below the original corpus. If market conditions cause the value of the account to fall below this limit, no withdrawal of funds can be made until the value exceeds this limit. Corpus balance will not be restored from general operating funds of the organization rather withdrawals will be prohibited until market growth restores balance. Withdrawn funds will only be used to enhance the Neighbor Service programs above and beyond the amounts typically spent or budgeted on such programs. Funds released for this purpose for the years ended June 30, 2018 and June 30, 2017, were \$0.

*Investment return objective, risk parameters and strategies* - the objective of our endowment portfolio is a balanced approach between equities and fixed income. The investment horizon is long-term and balances the need for income and growth. The portfolio allows up to 60% investment in equities and up to 40% investment in fixed income.

At June 30, 2018, our endowment funds were held in an investment account consisting of cash and investment funds, see NOTE 3.

A schedule of endowment net asset composition by type of fund as of June 30, 2018 and 2017, is as follows:

|                 | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>2018</u> | <u>2017</u> |
|-----------------|---------------------|-----------------------------------|-----------------------------------|-------------|-------------|
| Endowment funds | \$ 1,144            | \$ -                              | \$ 563,438                        | \$ 564,582  | \$ 563,438  |

**NOTE 9 - Contingencies**

From time to time, we may be and have been named as a defendant in a lawsuit. There are no outstanding lawsuits at June 30, 2018 and 2017. We do not believe an accrual is necessary at June 30, 2018 and 2017.

**GRACEWORKS MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 10 - New Pronouncements**

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2019, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update provides guidance about the presentation of financial statements for non-profit organizations. The amendments in this Update are effective for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this statement.

In November 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of adopting this guidance on the financial statements.

**NOTE 11 - Subsequent Events**

We have evaluated events subsequent to the year ending June 30, 2018. As of December 14, 2018, the date that the financial statements were available to be issued, we are not aware of any material subsequent events, other than those noted below, which would require recognition or disclosure in the accompanying financial statements for the year ended June 30, 2018.

We committed to purchase vehicles with a total cost of \$78,774 on June 29, 2018. However, we did not receive the vehicles until the first day of the 2019 fiscal year and were not obligated to pay for these vehicles until that time. These vehicles will be recorded as property and equipment in the June 30, 2019 financial statements.