

**GRACE COMMUNITY OF TYLER**

**FINANCIAL STATEMENTS**  
**(with Independent Auditors' Report thereon)**

**JUNE 30, 2014**

## **INDEPENDENT AUDITORS' REPORT**

Elder Stewardship Board  
Grace Community of Tyler  
Tyler, Texas

We have audited the accompanying financial statements of Grace Community of Tyler (a religious organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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 their 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 of material misstatement.

An audit includes 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.

Members: Texas Society of CPAs and  
Private Companies Practice Section of American Institute of CPAs

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 Grace Community of Tyler as of June 30, 2014 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 Grace Community of Tyler's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying detailed statement of activities is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



ARMS, SHILLING & PYE, PC  
Certified Public Accountants  
January 20, 2015

**GRACE COMMUNITY OF TYLER**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash Accounts	\$ 2,800,501	\$ 3,416,444
Investments - note 4	1,244,481	1,397,708
Accounts Receivable	(20,638)	33,275
Accts Rec - Bad Debt Reserve	(14,904)	(9,990)
Accts Rec - 403(b) Plan Forfeitures	6,149	1,604
Advances	3,125	860
Prepaid Expenses	150,265	47,207
Total Current Assets	4,168,979	4,887,108
Fixed Assets		
Buildings	18,979,610	18,979,610
Land	777,194	777,194
Vehicles	370,147	370,147
Office	408,092	408,092
Equipment	701,642	701,642
Less accumulated depreciation	(10,538,377)	(9,526,280)
Total Fixed Assets	10,698,308	11,710,405
Other Assets		
Church Building Under Construction	2,499,571	178,507
Total Assets	<u>\$ 17,366,858</u>	<u>\$ 16,776,020</u>

See accompanying notes and independent auditors' report.

**GRACE COMMUNITY OF TYLER**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

LIABILITIES	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts Payable	\$ 319,531	\$ 154,502
Deferred Income	588,159	597,428
Accrued Payroll & Taxes	196,246	249,910
Accrued 401K Match	2,565	-
Accrued Empl Tuition Assist	25,599	26,056
Accrued Empl Vacation	118,304	126,942
Accrued Other Items	52,502	50,237
Line of Credit	594,777	402,518
Current Portion of Long-Term Liabilities	142,325	134,196
Total Current Liabilities	<u>2,040,008</u>	<u>1,741,789</u>
Long-Term Liabilities		
Notes Payable - note 6	1,963,132	2,211,402
Less Current Portion	<u>(142,325)</u>	<u>(134,196)</u>
Total Liabilities	<u>3,860,815</u>	<u>3,818,995</u>
NET ASSETS		
Temporarily restricted - note 2	1,177,687	2,215,480
Unrestricted net assets		
Board Designated - note 3	1,991,011	1,765,369
Undesignated	<u>10,337,345</u>	<u>8,976,176</u>
Total Net Assets	<u>13,506,043</u>	<u>12,957,025</u>
Total Liabilities And Net Assets	<u><u>\$ 17,366,858</u></u>	<u><u>\$ 16,776,020</u></u>

See accompanying notes and independent auditors' report.

**GRACE COMMUNITY OF TYLER**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total - Year Ended June 30,</u>	
			<u>2014</u>	<u>2013</u>
<b><u>Operating</u></b>				
Revenue and Other Support				
Tuition, Fees, and				
Other Non-Contributed Receipts	\$ 11,416,734	\$ -	\$ 11,416,734	\$ 10,899,112
Less Scholarships and Assistance	(570,947)	-	(570,947)	(661,451)
	<u>10,845,787</u>	<u>-</u>	<u>10,845,787</u>	<u>10,237,661</u>
Contributions Received	3,747,081	2,154,703	5,901,784	6,680,423
Investment Income	7,977	-	7,977	9,536
Other Income	41,235	-	41,235	34,680
Net assets released from restrictions for operating expenses	<u>902,044</u>	<u>(902,044)</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>15,544,124</u>	<u>1,252,659</u>	<u>16,796,783</u>	<u>16,962,300</u>
Expenses				
Program Expense				
Personnel Cost	10,519,265	-	10,519,265	10,130,153
Ministry Cost	374,180	-	374,180	323,198
Missions	595,680	-	595,680	473,816
Student Expenses	1,720,517	-	1,720,517	1,175,429
General and Admin. Expense				
Building Maint/Utilities Cost	797,757	-	797,757	755,487
Interest Expense	79,774	-	79,774	125,191
Depreciation Expense	1,012,097	-	1,012,097	991,326
Other Expenses	22,068	-	22,068	-
Admin Cost	<u>1,126,427</u>	<u>-</u>	<u>1,126,427</u>	<u>987,433</u>
Total Expenses	<u>16,247,765</u>	<u>-</u>	<u>16,247,765</u>	<u>14,962,033</u>
Change In Net Assets From Operating Activities	(703,641)	1,252,659	549,018	2,000,267
<b><u>Non-Operating</u></b>				
Net assets released from restrictions for construction of building	2,078,612	(2,078,612)	-	-
for payment of school debts	110,519	(110,519)		
for payment of building loan	<u>101,321</u>	<u>(101,321)</u>	<u>-</u>	<u>-</u>
Change In Net Assets	1,586,811	(1,037,793)	549,018	2,000,267
Net assets at beginning of year	<u>10,741,545</u>	<u>2,215,480</u>	<u>12,957,025</u>	<u>10,956,758</u>
Net assets at end of year	<u><u>\$ 12,328,356</u></u>	<u><u>\$ 1,177,687</u></u>	<u><u>\$ 13,506,043</u></u>	<u><u>\$ 12,957,025</u></u>

See accompanying notes and independent auditors' report.

**GRACE COMMUNITY OF TYLER**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

	Year Ended June 30,	
	2014	2013
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 549,018	\$ 2,000,267
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,012,097	991,326
(Increase) decrease in accounts receivable	49,368	(3,395)
(Increase) decrease in accts. rec. reserve for bad debts	4,914	8,313
(Increase) decrease in advances	(2,265)	(290)
(Increase) decrease in prepaid expenses	(103,057)	44,926
(Increase) decrease in interfund receivables	-	-
Increase (decrease) in accounts payable and accrued expenses	107,100	77,123
Increase (decrease) in deferred revenue	(9,269)	(5,640)
Increase (decrease) in notes payable	(56,012)	(684,489)
Net Cash Provided by (Used in) Operating Activities	1,002,816	421,814
Cash Flows from Investing Activities:		
Proceeds from sale of investments	153,227	(581,352)
Paid for ongoing construction of new building	(2,321,063)	(178,507)
Fixed assets disposed of (purchased)	-	(411,804)
Net Cash Provided by (Used in) Investing Activities	(2,167,836)	(1,171,663)
Net Increase (Decrease) in Cash and Cash Equivalents	(615,942)	1,256,478
Cash and Cash Equivalents at Beginning of Year	3,416,443	2,159,966
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,800,501	\$ 3,416,444

See accompanying notes and independent auditors' report.

**GRACE COMMUNITY OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

Grace Community of Tyler (Grace Community) is a religious organization that operates a church, a private school, and an early education center and is supported by donor contributions and by school tuitions and early education center fees. Grace Community's accounting records and reporting is on a fiscal year ending June 30.

Basis of Presentation

The financial statements of Grace Community have been prepared on the accrual basis of accounting and, accordingly, reflect any significant receivables, payables, and other liabilities.

The Accounting Standard Codification (ASC) is the Financial Accounting Standards Board's officially recognized source of authoritative U.S. generally accepted accounting principles applicable to all non-governmental entities. Grace Community has adopted the citation of ASC topics in its footnotes.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grace Community does not solicit unconditional promises to give and currently has none outstanding. Accordingly, contributions are not recognized until received.

Solely for the purposes of planning and budget preparation, Grace Community solicits non-enforceable commitments from its donors; however, no effort other than discreet follow-up inquiry is made to collect non-receipt of amounts so committed.

Income Taxes

Grace Community is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as a church and church-related school and therefore is not required to file with the Internal Revenue Service.

Contributed Services

During the year ended June 30, 2014, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.



**GRACE COMMUNITY OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Contributions

In accordance with ASC 958-605 "Not-for-Profit Entities, Revenue Recognition", contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The Elder Stewardship Board of Grace Community from time to time authorizes funds for which expenditures are restricted to specific purposes and for which it solicits contributions from donors. Contributions directed by donors to those funds are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions of the funds. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grace Community does not accept donor-restricted contributions other than those directed to one or more of the restricted funds created by the Elder Stewardship Board.

All non-restricted contributions are reported as increases in unrestricted net assets.

Property and Equipment

All significant acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, 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.

Maintenance and repairs that do not materially extend the useful life of the assets are expensed as incurred. Upon the sale or retirement of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the earnings for the period. Buildings are depreciated over an estimated useful life of 20 years; leasehold improvements are depreciated over an estimated useful life of 10 to 15 years. Vehicles, office furniture, and equipment are depreciated over an estimated useful life of 5 years.

Advertising

Grace Community follows the policy of charging the cost of advertising to expense as incurred.

**GRACE COMMUNITY OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. The policy of Grace Community is to liquidate noncash donations as soon as practicable after receipt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through January 21, 2014, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

Accounts Receivable

Accounts receivable consists of school tuition and early education center fees.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Grace Community considers only unrestricted demand deposits and money market accounts, excluding cash equivalent funds held in Grace Community's investment portfolio, to be cash equivalents.

Concentration of Credit Risk

Grace Community places its cash, cash equivalents, short-term fund and marketable securities with high credit quality financial institutions which, at times, may exceed federally insured limits. Grace Community has not experienced any losses on such accounts.

Summarized Financial Information

The financial statements include certain summarized information from the prior year in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30 of the prior year, from which the summarized information was derived.

**GRACE COMMUNITY OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

**NOTE 2 – RESTRICTED FUNDS**

Grace Community has no permanently-restricted funds.

Temporarily restricted net assets are available for the following purposes:

	Year Ended June 30,	
	2014	2013
Various church ministries and missions	\$ 88,240	\$90,147
Various building funds	-	1,300,584
Various school funds	1,089,447	824,749
	<u>\$1,177,687</u>	<u>\$2,215,480</u>

**NOTE 3 – BOARD-DESIGNATED FUNDS**

The Elder Stewardship Board of Grace Community has designated a portion of its unrestricted funds for the following purposes:

	Year Ended June 30,	
	2014	2013
Capital maintenance reserve	\$ 692,068	\$ 665,005
Emergency reserve	1,052,324	1,013,750
Transportation reserve	246,619	86,614
	<u>\$ 1,991,011</u>	<u>\$1,765,369</u>

**NOTE 4 – INVESTMENTS**

ASC 820, “Fair Value Measurements,” establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable information for similar items in active or inactive markets and have a lower priority, and Level 3 inputs, consisting of items for which there is significant unobservable information, have the lowest priority.

All debt and equity securities held by Grace Community are Level 1 inputs with readily determinable values and include the following as of June 30, 2014:

**GRACE COMMUNITY OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

**NOTE 4 – INVESTMENTS (continued)**

	Fair Value Measurements Using:	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	2014	2013
Money Market Funds	\$ 162,501	\$ 138,078
Certificates of Deposit	386,296	383,614
Interest Bearing Bank Accounts	695,684	876,016
	<u>\$1,244,481</u>	<u>\$1,397,708</u>

**NOTE 5 – LEASES**

Grace Community has leased office space under a non-cancelable operating lease running through October 31, 2018. The following is a schedule by years of future lease payments as of June 30, 2014:

Year Ending June 30	Lease Payment
2015	\$ 96,412
2016	96,412
2017	100,755
2018	107,268
2019	36,480
	<u>\$ 437,327</u>

**GRACE COMMUNITY OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**(With Summarized Totals for 2013)**

**NOTE 6 – NOTES PAYABLE**

Grace Community's obligation under notes payable consists of the following:

	Year Ended June 30	
	2014	2013
4.00% note payable, due in monthly installments of \$5,327.23, including interest, through September 7, 2017, with a final payment then due of \$4,076, secured by land and buildings:	\$ 80,801	\$ 243,914
3.89% note payable, due in monthly installments of \$12,846.45, including interest, through February 1, 2017, with a final payment then due of \$1,676,950, secured by land and buildings:	1,882,331	1,967,488
Total	<u>\$ 1,963,132</u>	<u>\$ 2,211,402</u>

The future scheduled maturities of long-term debt are as follows:

Year Ending June 30	Scheduled Maturity
2015	\$ 142,325
2016	102,587
2017	1,718,220
	<u>\$ 1,963,132</u>

## **SUPPLEMENTAL SCHEDULE**

**GRACE COMMUNITY OF TYLER**  
**DETAILED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
(With Summarized Totals for 2013)

	Church		Building		School		Early Education Center		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b><u>Operating</u></b>										
Revenue and Other Support										
Tuition, Fees, Other Non-Contributed Receipts	\$ -	\$ -	\$ -	\$ -	\$ 9,071,384	\$ 8,660,739	\$ 2,345,350	\$ 2,238,373	\$ 11,416,734	\$ 10,899,112
Less Scholarships and Assistance	-	-	-	-	(571,490)	(660,891)	543	(560)	(570,947)	(661,451)
	-	-	-	-	8,499,894	7,999,848	2,345,893	2,237,813	10,845,787	10,237,661
Contributions Received	3,946,358	3,878,497	879,401	1,708,329	1,076,025	1,093,597	-	-	5,901,784	6,680,423
Investment Income	1,953	1,996	-	-	4,609	6,089	1,415	1,451	7,977	9,536
Other Income	37,027	34,396	-	-	2,780	-	1,428	284	41,235	34,680
	3,985,338	3,914,889	879,401	1,708,329	9,583,308	9,099,534	2,348,736	2,239,548	16,796,783	16,962,300
<b>Total Revenue and Other Support</b>										
<b>Expenses</b>										
Program Expense										
Personnel Cost	2,615,654	2,585,200	-	-	6,197,056	5,981,329	1,706,555	1,583,624	10,519,265	10,150,153
Ministry Cost	373,761	322,627	-	-	-	-	419	570	374,180	323,197
Missions	595,680	473,816	-	-	-	-	-	-	595,680	473,816
Student Expenses	-	-	-	-	1,612,792	1,040,826	107,725	134,603	1,720,517	1,175,429
General and Administration Expense										
Building Maint/Utilities Cost	187,698	165,665	-	-	610,059	589,823	-	-	797,757	755,488
Interest Expense	2,134	19,147	-	-	77,640	106,044	-	-	79,774	125,191
Depreciation Expense	353,928	353,470	-	-	625,960	620,382	32,209	17,474	1,012,097	991,326
Other Expenses	-	-	-	-	1,612	-	20,456	-	22,068	-
Admin Cost	(1,471)	53,343	-	-	712,944	536,222	414,954	377,868	1,126,427	967,433
	4,127,384	3,973,268	-	-	9,838,063	8,874,626	2,282,318	2,114,139	16,247,765	14,962,033
<b>Total Expenses</b>										
Change In Net Assets From Operating Activities	(142,046)	(58,379)	879,401	1,708,329	(254,755)	224,908	66,418	125,409	549,018	2,000,267
<b><u>Non-Operating</u></b>										
Interfund transfers	2,429,697	657,908	(2,435,343)	(539,274)	7,539	10,272	(1,893)	(128,906)	-	-
	-	-	-	-	-	-	-	-	-	-
Change in net assets	2,287,651	599,529	(1,555,942)	1,169,055	(247,216)	235,180	64,525	(3,497)	549,018	2,000,267
Net assets at beginning of year:	4,119,148	3,519,619	1,300,584	131,529	6,855,980	6,620,799	681,314	684,811	12,957,026	10,956,758
<b>Rounding</b>	2	1	-	-	-	(4)	-	(1)	-	-
Net assets at end of year	\$ 6,406,801	\$ 4,119,148	\$ (255,357)	\$ 1,300,584	\$ 6,608,764	\$ 6,855,979	\$ 745,835	\$ 681,314	\$ 13,506,043	\$ 12,957,025