

**ST. LUKE'S COMMUNITY HOUSE
(EPISCOPAL), INC.**

FINANCIAL STATEMENTS

December 31, 2012 and 2011

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
St. Luke's Community House (Episcopal), Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of St. Luke's Community House (Episcopal), Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 St. Luke's Community House (Episcopal), Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule on page 22 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.

Frasier, Dean + Howard, PLLC

May 13, 2013

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 487,240	\$ 147,050
Cash restricted for flood relief	6,223	166,132
Contributions receivable	162,705	170,871
Beneficial interest in trust	20,000	-
	<u>676,168</u>	<u>484,053</u>
Total current assets		
Beneficial interest in trust	81,000	-
Land, buildings and equipment, net of accumulated depreciation of \$1,762,126 and \$1,621,196, respectively	3,539,709	3,675,889
Investments	<u>926,140</u>	<u>813,768</u>
Total assets	<u>\$ 5,223,017</u>	<u>\$ 4,973,710</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 49,469</u>	<u>\$ 53,180</u>
Total liabilities	<u>49,469</u>	<u>53,180</u>
Net assets:		
Unrestricted:		
Undesignated	3,958,626	3,701,651
Designated	<u>218,768</u>	<u>240,544</u>
Total unrestricted	4,177,394	3,942,195
Temporarily restricted	241,313	340,003
Permanently restricted	<u>754,841</u>	<u>638,332</u>
Total net assets	<u>5,173,548</u>	<u>4,920,530</u>
Total liabilities and net assets	<u>\$ 5,223,017</u>	<u>\$ 4,973,710</u>

See accompanying notes.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Contributions	\$ 791,673	\$ 75,953	\$ 131,100	\$ 998,726
United Way	23,993	233,500	-	257,493
Associated organizations	173,045	2,830	-	175,875
Contributions - Thrift Shop	143,075	-	-	143,075
Special events	42,332	-	-	42,332
Net assets released from restrictions	434,180	(410,973)	(23,207)	-
Total public support	1,608,298	(98,690)	107,893	1,617,501
Revenue:				
Program services	237,293	-	-	237,293
Investment income, net	77,705	-	8,616	86,321
Grants	67,454	-	-	67,454
Miscellaneous	9,229	-	-	9,229
Total revenue	391,681	-	8,616	400,297
Total public support and revenue	1,999,979	(98,690)	116,509	2,017,798
Expenses:				
Program services:				
Preschool childcare	892,896	-	-	892,896
Senior services	112,748	-	-	112,748
Community	206,317	-	-	206,317
Volunteers	43,103	-	-	43,103
Family Resource Center	156,079	-	-	156,079
Flood relief	100,742	-	-	100,742
Total program services	1,511,885	-	-	1,511,885
Supporting services:				
Management and general	234,063	-	-	234,063
Fundraising	18,832	-	-	18,832
Total supporting services	252,895	-	-	252,895
Total expenses	1,764,780	-	-	1,764,780
Change in net assets	235,199	(98,690)	116,509	253,018
Net assets, beginning of year	3,942,195	340,003	638,332	4,920,530
Net assets, end of year	\$ 4,177,394	\$ 241,313	\$ 754,841	\$ 5,173,548

See accompanying notes.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Contributions	\$ 425,610	\$ 72,566	\$ 50,000	\$ 548,176
Contributions, flood relief	-	13,460	-	13,460
United Way	22,463	225,685	-	248,148
United Way, flood relief	-	78,023	-	78,023
Associated organizations	176,516	-	-	176,516
Associated organizations, flood relief	-	250,750	-	250,750
Contributions - Thrift Shop	132,125	-	-	132,125
Special events	59,596	-	-	59,596
Net assets released from restrictions	945,804	(923,113)	(22,691)	-
Total public support	<u>1,762,114</u>	<u>(282,629)</u>	<u>27,309</u>	<u>1,506,794</u>
Revenue:				
Program services	243,424	-	-	243,424
Investment income, net	(39,681)	-	8,843	(30,838)
Grants	65,532	-	-	65,532
Miscellaneous	7,761	-	-	7,761
Total revenue	<u>277,036</u>	<u>-</u>	<u>8,843</u>	<u>285,879</u>
Total public support and revenue	<u>2,039,150</u>	<u>(282,629)</u>	<u>36,152</u>	<u>1,792,673</u>
Expenses:				
Program services:				
Preschool childcare	932,877	-	-	932,877
Senior services	109,768	-	-	109,768
Community	212,649	-	-	212,649
Volunteers	36,816	-	-	36,816
Family Resource Center	175,495	-	-	175,495
Flood relief	371,806	-	-	371,806
Total program services	<u>1,839,411</u>	<u>-</u>	<u>-</u>	<u>1,839,411</u>
Supporting services:				
Management and general	250,915	-	-	250,915
Fundraising	18,401	-	-	18,401
Total supporting services	<u>269,316</u>	<u>-</u>	<u>-</u>	<u>269,316</u>
Total expenses	<u>2,108,727</u>	<u>-</u>	<u>-</u>	<u>2,108,727</u>
Change in net assets	(69,577)	(282,629)	36,152	(316,054)
Net assets, beginning of year	<u>4,011,772</u>	<u>622,632</u>	<u>602,180</u>	<u>5,236,584</u>
Net assets, end of year	<u>\$ 3,942,195</u>	<u>\$ 340,003</u>	<u>\$ 638,332</u>	<u>\$ 4,920,530</u>

See accompanying notes.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012

	Program Services						Supporting Services				
	Family			Total			Management and General		Total		
	Preschool Childcare	Senior Services	Community	Volunteers	Resource Center	Flood Relief	Program Services	Fund- raising	Supporting Services	Total Expenses	
Salaries and wages	\$ 522,085	\$ 51,722	\$ 88,675	\$ 24,270	\$ 42,677	\$ 22,928	\$ 752,357	\$ 139,805	\$ -	\$ 139,805	\$ 892,162
Benefits	122,048	11,151	21,207	5,751	9,530	3,311	172,998	31,962	-	31,962	204,960
Program supplies	18,336	-	36,987	210	-	67,528	123,061	537	13,450	13,987	137,048
Equipment and maintenance	40,571	5,084	14,745	1,994	26,984	2,976	92,354	9,038	-	9,038	101,392
Food	62,265	26,141	1,268	-	62	-	89,736	54	3,355	3,409	93,145
Utilities	28,785	3,599	10,795	1,439	19,383	2,205	66,206	5,757	-	5,757	71,963
Insurance	21,767	2,710	5,903	917	7,011	1,376	39,684	6,112	-	6,112	45,796
Office supplies	11,137	3,031	2,445	499	4,200	-	21,312	2,192	-	2,192	23,504
Professional	1,620	210	330	60	150	90	2,460	17,350	-	17,350	19,810
Telephone	2,923	365	1,096	146	1,972	170	6,672	637	-	637	7,309
Printing	-	-	-	-	1,451	-	1,451	3,870	1,450	5,320	6,771
Mercy House	-	-	-	4,465	-	-	4,465	-	-	-	4,465
Miscellaneous	930	70	757	-	70	-	1,827	1,461	337	1,798	3,625
Contract labor	1,195	458	747	149	299	140	2,988	-	-	-	2,988
Conference and meetings	2,484	-	-	-	-	-	2,484	350	-	350	2,834
Postage and shipping	9	5	226	132	-	18	390	1,117	240	1,357	1,747
Licenses, fees, permits	366	24	-	250	9	-	649	710	-	710	1,359
Bad debt expense	-	-	-	-	-	-	-	1,245	-	1,245	1,245
Transportation	-	1,127	-	-	-	-	1,127	-	-	-	1,127
Gifts in kind	-	-	-	-	-	-	-	600	-	600	600
	836,521	105,697	185,181	40,282	113,798	100,742	1,382,221	222,797	18,832	241,629	1,623,850
Depreciation	56,375	7,051	21,136	2,821	42,281	-	129,664	11,266	-	11,266	140,930
	\$ 892,896	\$ 112,748	\$ 206,317	\$ 43,103	\$ 156,079	\$ 100,742	\$ 1,511,885	\$ 234,063	\$ 18,832	\$ 252,895	\$ 1,764,780

See accompanying notes.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Services					Support Services				
	Preschool	Senior	Community	Volunteers	Family	Total	Management	Fund-	Supporting	Total
	Childcare	Services			Resource	Program	and	raising	Services	Expenses
					Center	Services	General			
Salaries and wages	\$ 517,334	\$ 59,985	\$ 85,770	\$ 21,656	\$ 46,082	\$ 871,475	\$ 133,723	\$ -	\$ 133,723	\$ 1,005,198
Benefits	134,606	14,797	20,749	5,329	11,070	216,905	32,011	-	32,011	248,916
Program supplies	16,346	48	21,224	50	65	215,347	552	7,926	8,478	223,825
Equipment and maintenance	44,323	5,301	31,252	2,086	27,304	115,582	8,268	-	8,268	123,850
Food	68,500	6,593	1,429	-	62	76,584	255	8,266	8,521	85,105
Utilities	31,969	3,996	11,989	1,598	20,780	73,529	6,395	-	6,395	79,924
Insurance	27,457	3,496	7,455	1,196	10,241	54,261	5,767	-	5,767	60,028
Office supplies	12,195	3,455	2,636	603	5,356	24,245	2,414	-	2,414	26,659
Professional	1,665	229	294	65	163	2,808	19,184	-	19,184	21,992
Bad debt expense	-	-	-	-	-	-	13,250	-	13,250	13,250
Telephone	4,126	516	1,547	206	2,697	10,511	821	-	821	11,332
Conference and meetings	7,444	-	10	260	-	7,714	1,003	-	1,003	8,717
Mercy House	-	-	-	-	-	7,197	-	-	-	7,197
Printing	-	-	-	-	1,629	1,629	3,774	1,575	5,349	6,978
Gifts in kind	-	-	-	-	-	-	6,714	-	6,714	6,714
Transportation	30	2,918	-	40	-	4,182	12	-	12	4,194
Miscellaneous	140	-	2,815	-	180	3,135	644	192	836	3,971
Postage and shipping	3	-	399	371	-	797	1,221	442	1,663	2,460
Interest charges	-	-	-	-	-	-	1,060	-	1,060	1,060
Contract labor	296	111	185	37	76	740	-	-	-	740
Licenses, fees, permits	56	24	-	-	-	80	570	-	570	650
	866,490	101,469	187,754	33,497	125,705	1,686,721	237,638	18,401	256,039	1,942,760
Depreciation	66,387	8,299	24,895	3,319	49,790	152,690	13,277	-	13,277	165,967
	\$ 932,877	\$ 109,768	\$ 212,649	\$ 36,816	\$ 175,495	\$ 1,839,411	\$ 250,915	\$ 18,401	\$ 269,316	\$ 2,108,727

See accompanying notes.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 253,018	\$ (316,054)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donation of stock	(70,808)	(20,724)
Beneficial interests in trusts	(101,000)	-
Contribution for endowment	(50,100)	(50,000)
Depreciation	140,930	165,967
Realized/unrealized (gain) loss on investments	(73,195)	43,501
Changes in operating assets and liabilities:		
Contributions receivable	8,166	58,023
Accounts receivable	-	2,792
Accounts payable and accrued expenses	(3,711)	6,694
Net cash provided by (used in) operating activities	<u>103,300</u>	<u>(109,801)</u>
Cash flows from investing activities:		
Land, buildings and equipment purchases	(4,750)	(18,851)
Purchases of investments	(124,650)	(15,697)
Proceeds from sales of investments	156,281	55,934
Decrease in cash restricted for flood relief	159,909	25,406
Net cash provided by investing activities	<u>186,790</u>	<u>46,792</u>
Cash flows from financing activities:		
Payments on note payable	-	(59,809)
Contribution for endowment	50,100	50,000
Net cash provided by (used in) financing activities	<u>50,100</u>	<u>(9,809)</u>
Net increase (decrease) in cash and cash equivalents	340,190	(72,818)
Cash and cash equivalents at beginning of year	<u>147,050</u>	<u>219,868</u>
Cash and cash equivalents at end of year	<u><u>\$ 487,240</u></u>	<u><u>\$ 147,050</u></u>
Supplemental information:		
Donation of stock	<u>\$ 70,808</u>	<u>\$ 20,724</u>
Beneficial interests in trusts	<u>\$ 101,000</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ 1,060</u>
Pledge of property donation received	<u>\$ -</u>	<u>\$ 183,000</u>

See accompanying notes.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

St. Luke's Community House (Episcopal), Inc. (the "Organization"), was founded in 1913 by the Daughters of the King, an order of the Episcopal Church. The Organization offers a diversity of services to the community, enabling people to maintain their lives in a more healthy and stable environment. The Organization concerns itself with the welfare and dignity of individuals and seeks to strengthen and support the family unit. The Organization is supported primarily through donor contributions and the United Way.

The following program services are offered by the Organization:

Preschool Childcare – St. Luke's offers a licensed preschool program with focus on kindergarten readiness, for children from 6 weeks of age through 5 years (pre-kindergarten).

Senior Services – The Organization provides free lunches Monday through Friday to low-income seniors, as well as sponsors social and recreational activities for West Nashville seniors.

Community – The Organization provides various services to the community, including food boxes, counseling services, tax return preparation and emergency financial assistance.

Volunteers – The Organization provides organization and coordination of the significant number of volunteers serving the various programs and services provided by the Organization.

Family Resource Center – Various other programs and services are provided to the community through the Family Resource Center based on various needs.

Flood Relief – The Organization provides assistance to flood victims in Middle Tennessee as a result of the May 2010 flood.

Basis of Presentation

The Organization presents its financial statements in accordance with standards of accounting and reporting prescribed for not-for-profit organizations. Under these standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization are presented as follows:

Unrestricted net assets:

Undesignated – net assets not subject to donor-imposed stipulations or designated by the Organization's board.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Unrestricted net assets (Continued):

Designated – net assets designated by the Organization's board for particular purposes, presently designated by the board for endowment.

Temporarily restricted net assets - net assets subject to donor-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 statements of activities as net assets released from restrictions.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that require that the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The Organization does not consider cash restricted for flood relief as cash and cash equivalents.

Contributions

The Organization accounts for contributions in accordance with standards of accounting and reporting prescribed for not-for-profit organizations. In accordance with these standards, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under these standards, time or purpose restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Allowances for uncollectible promises to give are based on management's estimates based on prior collection history.

Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Unrealized gains and losses, as well as appreciation or depreciation in market value, are reflected in the accompanying financial statements.

Fair Value Measurements

The Organization has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

- Level 1* – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2* – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3* – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The following is a description of the valuation methodology used for asset measurement at fair value at December 31, 2012 and 2011:

Mutual Funds maintained as part of the Episcopal Endowment Corporation Common Trust Fund: Valued at net asset value of amounts held by the Organization at year end.

Beneficial interests in trusts: Valued using information obtained from third party sources, including financial statements and other information from detailed listing of holdings from the trust. These valuations are typically performed annually, based on the present value of the estimated future distributions the Organization expects to receive over the term of the trust.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Beneficial Interests in Trusts

Accounting standards require that the following instruments be recorded as a contribution and an asset at the present value of the Organization's ultimate interest:

Charitable Remainder Trust

A donor has established and funded trusts under which specified distributions are to be made to a designated beneficiary over the trust's term. Upon termination of the trusts, the Organization receives a portion of the assets remaining in the trusts.

Charitable Lead Trust

A donor has established and funded a trust designating the Organization as a beneficiary of specific distributions to be made over a specified period. Upon termination of the trust, the remainder of the trust assets is to be paid to a beneficiary designated by the donor.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Endowment Funds

The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board’s interpretation of the law that underlies the Organization’s net asset classification of donor-restricted endowment funds, a description of the Organization’s policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the Organization’s endowment investment policies, and additional disclosures not previously required.

Land, Buildings and Equipment

Land, buildings and equipment are stated in the accompanying statements of financial position at cost, or if contributed, at estimated fair market value at date of gift. Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. Depreciation is calculated using the straight-line basis with estimated useful lives ranging as follows:

Buildings and improvements	5 – 39 years
Equipment and furniture	3 – 10 years

Donated Services

Donated services are recognized if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by persons possessing those skills and would be purchased if not donated.

Amounts have not been reported in the financial statements for certain donated services because they do not meet the criteria for recognition. However, a substantial number of volunteers have donated approximately 9,500 volunteer hours to the Organization’s programs during the year ended December 31, 2012. Donated equipment, supplies, and other items are included in the accompanying financial statements at their estimated value.

Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is not considered a private foundation. Accordingly, no provision for income taxes has been made in the financial statements.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows guidance concerning the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2010 through December 31, 2012. The Organization had no uncertain tax positions at December 31, 2012 and 2011.

Functional Allocation of Expenses

The costs of providing the various programs and other services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates made by management.

Subsequent Events

The Organization evaluated subsequent events through May 13, 2013, when these financial statements were available to be issued. Except as disclosed in Note 13, the Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – INVESTMENTS

Investments (Level 1) consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Board Designated Fund (includes a portion of permanently restricted net assets in addition to board designations)	\$ 322,536	\$ 244,853
In Perpetuity Fund	<u>603,604</u>	<u>568,915</u>
	<u><u>\$ 926,140</u></u>	<u><u>\$ 813,768</u></u>

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (Continued)

Investment income (loss) is comprised of the following for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Interest	\$ 13,126	\$ 12,663
Realized and unrealized gain (loss)	<u>73,195</u>	<u>(43,501)</u>
	<u>\$ 86,321</u>	<u>\$ (30,838)</u>

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized below at December 31:

	<u>2012</u>	<u>2011</u>
Receipts expected within one year	\$ 165,705	\$ 173,871
Less allowance for estimated uncollectible amounts	<u>(3,000)</u>	<u>(3,000)</u>
Net contributions receivable	<u>\$ 162,705</u>	<u>\$ 170,871</u>

NOTE 4 – BENEFICIAL INTERESTS IN TRUSTS

During 2012, the Organization recorded a charitable remainder trust, held and administered by a third party, in which the Organization has been named as a 5% beneficiary upon termination of the trust in 2013. The value of future benefits expected to be received by the Organization totaled approximately \$20,000 as of December 31, 2012.

A donor has established a trust held by a third party naming the Organization as a beneficiary of a charitable lead trust. Under terms of the split-interest agreement, the Organization is to receive 3% of the net fair market value of the trust principal for a period of ten years. Upon termination of the trust, the remaining trust assets are to be distributed to others. Based upon earnings at an estimated rate of 3% over the life of the trust and a 1.78% discount rate, the present value of future benefits expected to be received by the Organization totaled approximately \$81,000 at December 31, 2012.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 245,746	\$ 245,746
Buildings and improvements	4,595,824	4,580,559
Equipment and furniture	<u>460,265</u>	<u>470,780</u>
	5,301,835	5,297,085
Accumulated depreciation	<u>(1,762,126)</u>	<u>(1,621,196)</u>
	<u>\$ 3,539,709</u>	<u>\$ 3,675,889</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Unconditional promises to give due in future periods	\$ 165,705	\$ 111,371
Beneficial interest in trust	20,000	-
Contributions received for future periods	49,385	-
Flood relief	<u>6,223</u>	<u>228,632</u>
	<u>\$ 241,313</u>	<u>\$ 340,003</u>

NOTE 7 – ENDOWMENT

The Organization's endowment consists of donor restricted gifts as well as assets designated by the Board which are held in investment accounts. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by Type of Fund as of December 31, 2012:

	<u>Unrestricted</u>	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unrestricted	\$ (8,929)	\$ -	\$ -	\$ -	\$ (8,929)
Board designated endowment funds	-	218,768	-	-	218,768
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>754,841</u>	<u>754,841</u>
Total	<u>\$ (8,929)</u>	<u>\$ 218,768</u>	<u>\$ -</u>	<u>\$ 754,841</u>	<u>\$ 964,680</u>

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 7 – ENDOWMENT (Continued)

Changes in Endowment Net Assets for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (58,410)	\$ 240,544	\$ -	\$ 638,332	\$ 820,466
Contributions	-	-	-	131,100	131,100
Investment return	49,481	28,224	-	8,616	86,321
Distributions, net	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(23,207)</u>	<u>(73,207)</u>
Endowment net assets, end of year	<u>\$ (8,929)</u>	<u>\$ 218,768</u>	<u>\$ -</u>	<u>\$ 754,841</u>	<u>\$ 964,680</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2011:

	<u>Unrestricted</u>	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unrestricted	\$ (58,410)	\$ -	\$ -	\$ -	\$ (58,410)
Board designated endowment funds	-	240,544	-	-	240,544
Donor restricted endowment funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>638,332</u>	<u>638,332</u>
Total	<u>\$ (58,410)</u>	<u>\$ 240,544</u>	<u>\$ -</u>	<u>\$ 638,332</u>	<u>\$ 820,466</u>

Changes in Endowment Net Assets for the year ended December 31, 2011

Endowment net assets, beginning of year	\$ (28,038)	\$ 249,853	\$ -	\$ 602,180	\$ 823,995
Contributions	-	-	-	50,000	50,000
Investment return	(30,372)	(9,309)	-	8,843	(30,838)
Distributions, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,691)</u>	<u>(22,691)</u>
Endowment net assets, end of year	<u>\$ (58,410)</u>	<u>\$ 240,544</u>	<u>\$ -</u>	<u>\$ 638,332</u>	<u>\$ 820,466</u>

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 7 – ENDOWMENT (Continued)

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. To the extent unrealized losses exceed original permanently restricted net assets plus gains earned in prior periods and earnings for which donor restrictions have not been met, such losses are recognized as losses in the unrestricted net asset class. Future increases in earnings of permanently restricted net assets will be first used to offset losses previously recognized in the unrestricted net asset class, and then increase permanently restricted net assets.

In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$8,929 and \$58,410 as of December 31, 2012 and 2011, respectively.

Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets to support the Organization and to enable it to more completely fulfill its mission by providing funds for (a) capital needs, (b) operating expenses, (c) programs and special projects and (d) such other purposes as specifically designated by donors. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as amounts designated by the board of directors to be held in perpetuity. Under this policy, as approved by the board of directors, the primary objective is to achieve a reasonable return on the assets, while limiting the risk exposure to ensure the preservation of capital. Investment funds are to be maintained as cash or as publicly traded securities.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 7 – ENDOWMENT (Continued)

Strategies Employed for Achieving Investment Objectives

To satisfy its long term objectives, the Organization relies on a strategy meant to preserve the corpus while providing a reasonable return on assets. The Organization has established a long-term investment goal of earning a minimum real rate of return equal to 5% per annum in excess of the rate of inflation, as measured by the greater of the Consumer Price Index or the GNP Deflator. This goal is measured over 5-10 year time periods.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization determines expendable funds on the basis of a total return principle. The funds available for distribution during any one year shall be determined at the beginning of such year and are limited to 4% of the average value of the corpus. The average value is determined by computing a three-year rolling average of the twelve end-of-quarter market values. Any expended funds from those available for distribution for a given year are accrued and continue to be considered available for distribution in subsequent years, unless otherwise designated by the action of the board of directors.

NOTE 8 – CONTRIBUTIONS – THRIFT SHOP AND ASSOCIATED ORGANIZATIONS

The Organization receives support from income generated by a local thrift shop. Such contributions totaled \$143,075 and \$132,125 for the years ended December 31, 2012 and 2011, respectively. The Organization's executive director serves as a board member of the thrift shop.

In addition, the Organization receives contributions from churches and other organizations associated with the Episcopal Church. Contributions from these organizations totaled \$175,875 and \$427,766 for the years ended December 31, 2012 and 2011, respectively.

NOTE 9 – PENSION PLAN UNCERTAINTY

During 2000, the board of directors approved an amendment to its defined benefit pension plan which resulted in the freezing of all future benefits under the plan as of August 31, 2000. During 2006, the plan was terminated. The Organization is in the process of resolving final administration requirements relating to the plan with the Internal Revenue Service and the Pension Benefit Guaranty Corporation, including determination as to whether the plan qualifies as a church plan which limits certain of these administrative requirements and also additional obligations, if any, to the former participants. Presently, the ultimate outcome of these matters cannot be determined.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 10 – BENEFIT PLAN

Effective February 2001, the Organization established a 401(k) Retirement Savings Plan. Under the plan, the Organization will contribute 3% of eligible employees' compensation, as defined. In addition, the Organization will match up to 3% of employees' contributions to the plan. Retirement plan contributions totaled \$38,976 and \$41,697 for the years ended December 31, 2012 and 2011, respectively.

NOTE 11 – LINE OF CREDIT

The Organization obtained a line of credit arrangement with a financial institution during 2012, with interest rates at the Wall Street Journal prime rate. Monthly interest payments are due based on outstanding amounts with the principal due October 3, 2013. The agreement is secured by the Organization's property and provides for short-term borrowings of up to \$250,000. There was no activity during the year ended December 31, 2012.

NOTE 12 – CONCENTRATIONS

Contributions include \$350,000 from one major donor during the year ended December 31, 2012.

Also, the Organization maintains cash deposits in excess of federally insured amounts. At December 31, 2012 and 2011, the Organization's uninsured balances total approximately \$240,000 and \$0, respectively. In management's opinion, risk relating to these deposits is minimal.

NOTE 13 – SUBSEQUENT EVENT

Subsequent to December 31, 2012, the Organization announced its plans for a Centennial Campaign in 2013 recognizing the Organization's first 100 years. The goals of the campaign are to raise funds for capital improvements (\$300,000), for emergency funds (\$400,000), and for endowment (\$300,000).

SUPPLEMENTAL SCHEDULE

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF FLOOD RELIEF ACTIVITIES
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Public support:		
Contributions	\$ -	\$ 13,460
Associated organizations	-	250,750
United Way	-	78,023
Pledge payments received in 2011	-	66,667
Total public support	<u>-</u>	<u>408,900</u>
Expenses:		
Flood relief expenses	<u>100,742</u>	<u>371,806</u>
Total expenses	<u>100,742</u>	<u>371,806</u>
Funds released from restriction	<u>121,667</u>	<u>-</u>
Net (decrease) increase in flood relief activities	(222,409)	37,094
Restricted for flood relief activities, beginning of year	<u>228,632</u>	<u>191,538</u>
Restricted for flood relief activities, end of year	<u><u>\$ 6,223</u></u>	<u><u>\$ 228,632</u></u>