

ENCOURAGEMENT MINISTRIES, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the years ended June 30, 2006 and 2005

ENCOURAGEMENT MINISTRIES, INC.
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F R A S I E R , D E A N & H O W A R D , P L L C

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Encouragement Ministries, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Encouragement Ministries, Inc. (a nonprofit organization) as of June 30, 2006 and 2005 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Encouragement Ministries, Inc. as of June 30, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

December 28, 2006

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 24,997	\$ 34,303
Unconditional promises to give	1,505	2,740
Prepaid expenses	-	300
Other	<u>30</u>	<u>148</u>
Total current assets	26,532	37,491
Property and equipment, net	<u>470</u>	<u>1,142</u>
Total assets	<u><u>\$ 27,002</u></u>	<u><u>\$ 38,633</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 7,863</u>	<u>\$ 3,544</u>
Net assets:		
Unrestricted	14,884	27,349
Temporarily restricted	<u>4,255</u>	<u>7,740</u>
Total net assets	<u>19,139</u>	<u>35,089</u>
Total liabilities and net assets	<u><u>\$ 27,002</u></u>	<u><u>\$ 38,633</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 80,130	\$ 9,245	\$ 89,375
Grants	2,250	2,750	5,000
In-kind contributions	7,096	-	7,096
Other	119	-	119
Net assets released from restrictions	<u>15,480</u>	<u>(15,480)</u>	<u>-</u>
Total public support and revenue	<u>105,075</u>	<u>(3,485)</u>	<u>101,590</u>
Expenses:			
Program services	<u>85,711</u>	<u>-</u>	<u>85,711</u>
Supporting services:			
Management and general	4,777	-	4,777
Fundraising	<u>27,052</u>	<u>-</u>	<u>27,052</u>
Total supporting services	<u>31,829</u>	<u>-</u>	<u>31,829</u>
Total expenses	<u>117,540</u>	<u>-</u>	<u>117,540</u>
Change in net assets	(12,465)	(3,485)	(15,950)
Net assets - beginning of year	<u>27,349</u>	<u>7,740</u>	<u>35,089</u>
Net assets - end of year	<u><u>\$ 14,884</u></u>	<u><u>\$ 4,255</u></u>	<u><u>\$ 19,139</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 66,320	\$ 21,225	\$ 87,545
Grants	5,000	5,000	10,000
In-kind contributions	9,696	-	9,696
Other	75	-	75
Net assets released from restrictions	<u>36,970</u>	<u>(36,970)</u>	<u>-</u>
Total public support and revenue	<u>118,061</u>	<u>(10,745)</u>	<u>107,316</u>
Expenses:			
Program services	<u>82,243</u>	<u>-</u>	<u>82,243</u>
Supporting services:			
Management and general	6,611	-	6,611
Fundraising	<u>28,250</u>	<u>-</u>	<u>28,250</u>
Total supporting services	<u>34,861</u>	<u>-</u>	<u>34,861</u>
Total expenses	<u>117,104</u>	<u>-</u>	<u>117,104</u>
Change in net assets	957	(10,745)	(9,788)
Net assets - beginning of year	<u>26,392</u>	<u>18,485</u>	<u>44,877</u>
Net assets - end of year	<u><u>\$ 27,349</u></u>	<u><u>\$ 7,740</u></u>	<u><u>\$ 35,089</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2006

	<u>Program Services</u>	<u>Supporting Services</u> <u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 68,565	\$ 1,997	\$ 9,392	\$ 79,954
Payroll taxes	5,130	125	681	5,936
Other	<u>1,944</u>	<u>-</u>	<u>216</u>	<u>2,160</u>
Total compensation	75,639	2,122	10,289	88,050
Professional fees (including in-kind of \$7,096)	2,500	-	5,796	8,296
Printing	-	-	6,528	6,528
Automobile and travel	4,607	-	-	4,607
Rent	1,200	1,200	1,200	3,600
Postage	-	-	2,134	2,134
Supplies	555	23	881	1,459
Insurance	868	-	-	868
Depreciation and amortization	342	224	224	790
Telephone	-	787	-	787
Taxes and licenses	-	190	-	190
Meals and entertainment	-	147	-	147
Dues and subscriptions	-	50	-	50
Miscellaneous	<u>-</u>	<u>34</u>	<u>-</u>	<u>34</u>
Total expenses	<u>\$ 85,711</u>	<u>\$ 4,777</u>	<u>\$ 27,052</u>	<u>\$ 117,540</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2005

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Salaries	\$ 66,683	\$ 1,516	\$ 8,757	\$ 76,956
Payroll taxes	5,007	116	659	5,782
Other	1,978	317	220	2,515
Total compensation	<u>73,668</u>	<u>1,949</u>	<u>9,636</u>	<u>85,253</u>
Professional fees (including in-kind of \$7,896)	2,095	-	6,801	8,896
Printing	-	-	6,705	6,705
Rent (including in-kind of \$1,800)	1,200	1,200	1,200	3,600
Automobile and travel	3,199	-	-	3,199
Depreciation and amortization	1,126	1,009	1,009	3,144
Postage	-	-	2,093	2,093
Telephone	-	1,407	-	1,407
Insurance	896	325	-	1,221
Supplies	59	228	806	1,093
Taxes and licenses	-	200	-	200
Meals and entertainment	-	128	-	128
Miscellaneous	-	115	-	115
Dues and subscriptions	-	50	-	50
Total expenses	<u>\$ 82,243</u>	<u>\$ 6,611</u>	<u>\$ 28,250</u>	<u>\$ 117,104</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (15,950)	\$ (9,788)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	790	3,144
Changes in operating assets and liabilities:		
Unconditional promises to give	1,235	15,745
Prepaid expenses	300	(300)
Accounts payable and accrued expenses	<u>4,319</u>	<u>1,406</u>
Net cash (used in) provided by operating activities	<u>(9,306)</u>	<u>10,207</u>
Net (decrease) increase in cash and cash equivalents	(9,306)	10,207
Cash and cash equivalents - beginning of year	<u>34,303</u>	<u>24,096</u>
Cash and cash equivalents - end of year	<u><u>\$ 24,997</u></u>	<u><u>\$ 34,303</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature and Organization

Encouragement Ministries, Inc. (the "Organization") is located in Brentwood, Tennessee and works with patients and their families in hospitals. The Organization's fundamental commitment is to provide compassionate pastoral care and spiritual support for people as they face serious illness and the possibility of death. The Organization's support comes primarily from donations and grants from private individuals and foundations.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor imposed restrictions.

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 statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally donors of these assets may permit the Organization to use all or part of the income earned for general or specific purposes. At June 30, 2006, the Organization had no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity when purchased of three months or less to be cash equivalents.

Property and Equipment

Purchased property and equipment is recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives which range from two to three years. Property and equipment are depreciated using the straight-line method.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributions

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. In accordance with SFAS No.116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and or nature of any donor restrictions. Under SFAS No. 116, such contributions are required to be reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

The Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. Management considers all unconditional promises to give fully collectible at June 30, 2006 and 2005.

Contributed Facilities and Services

During the years ended June 30, 2006 and 2005, the values of contributed facilities and services meeting the requirements for recognition in the financial statements were recorded at their fair value.

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Additionally, the Organization receives a significant amount of contributed time from unpaid volunteers who assist in fundraising and special projects that does not meet the recognition criteria described above. Accordingly, the value of the contributed time has not been determined and is not reflected in the accompanying financial statements.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Functional Expenses

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

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 3,826	\$ 3,826
Vehicle	<u>8,475</u>	<u>8,475</u>
	12,301	12,301
Less: accumulated depreciation	<u>(11,831)</u>	<u>(11,159)</u>
	<u>\$ 470</u>	<u>\$ 1,142</u>

Depreciation and amortization expense for the years ended June 30, 2006 and 2005 amounted to \$790 and \$3,144, respectively.

NOTE 3 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Unconditional promises to give	\$ 1,505	\$ 2,740
Memorial Foundation – expand ministry	<u>2,750</u>	<u>5,000</u>
	<u>\$ 4,255</u>	<u>\$ 7,740</u>

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 4 – RELATED PARTIES

During the years ended June 30, 2006 and 2005, an accounting firm owned by a member of the board of directors donated accounting and tax services to the Organization valued at \$7,096 and \$7,896, respectively. Beginning in January 2005, the Organization began paying \$300 per month for rent to the accounting firm (which includes use of telephone and internet services). Total related party rent, telephone and internet service reimbursement payments amounted to \$3,600 and \$2,400 for the years ended June 30, 2006 and 2005, respectively.

NOTE 5 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a 403(b) safe-harbor defined contribution plan covering the full-time employee. Under the plan, the Organization matches three percent of the eligible employee's salary. Plan expenses incurred by the Organization amounted to \$2,160 and \$2,197 for the years ended June 30, 2006 and 2005, respectively.