

ENCOURAGEMENT MINISTRIES, INC.

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

For the years ended June 30, 2010 and 2009

ENCOURAGEMENT MINISTRIES, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Encouragement Ministries, Inc.
Brentwood, Tennessee

We have audited the accompanying statements of financial position of Encouragement Ministries, Inc. (a nonprofit organization) as of June 30, 2010 and 2009 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 respects, the financial position of Encouragement Ministries, Inc. as of June 30, 2010 and 2009 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

May 3, 2011

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 38,508	\$ 54,731
Unconditional promises to give	1,915	2,830
Prepaid expenses	<u>-</u>	<u>644</u>
Total current assets	40,423	58,205
Property and equipment, net	<u>7,104</u>	<u>10,050</u>
Total assets	<u><u>\$ 47,527</u></u>	<u><u>\$ 68,255</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 3,781</u>	<u>\$ 13,790</u>
Total liabilities	<u>3,781</u>	<u>13,790</u>
Net assets:		
Unrestricted	41,831	45,905
Temporarily restricted	<u>1,915</u>	<u>8,560</u>
Total net assets	<u>43,746</u>	<u>54,465</u>
Total liabilities and net assets	<u><u>\$ 47,527</u></u>	<u><u>\$ 68,255</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 126,919	\$ 1,915	\$ 128,834
In-kind contributions	10,022	-	10,022
Other	146	-	146
Net assets released from restrictions	<u>8,560</u>	<u>(8,560)</u>	<u>-</u>
Total public support and revenue	<u>145,647</u>	<u>(6,645)</u>	<u>139,002</u>
Expenses:			
Program services	<u>112,321</u>	<u>-</u>	<u>112,321</u>
Supporting services:			
Management and general	6,023	-	6,023
Fundraising	<u>31,377</u>	<u>-</u>	<u>31,377</u>
Total supporting services	<u>37,400</u>	<u>-</u>	<u>37,400</u>
Total expenses	<u>149,721</u>	<u>-</u>	<u>149,721</u>
Change in net assets	(4,074)	(6,645)	(10,719)
Net assets - beginning of year	<u>45,905</u>	<u>8,560</u>	<u>54,465</u>
Net assets - end of year	<u><u>\$ 41,831</u></u>	<u><u>\$ 1,915</u></u>	<u><u>\$ 43,746</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 131,527	\$ 2,830	\$ 134,357
Grants	5,770	5,730	11,500
In-kind contributions	8,870	-	8,870
Other	120	-	120
Net assets released from restrictions	2,960	(2,960)	-
	<u>149,247</u>	<u>5,600</u>	<u>154,847</u>
Total public support and revenue			
Expenses:			
Program services	<u>101,330</u>	<u>-</u>	<u>101,330</u>
Supporting services:			
Management and general	4,844	-	4,844
Fundraising	27,927	-	27,927
	<u>32,771</u>	<u>-</u>	<u>32,771</u>
Total supporting services			
Total expenses	<u>134,101</u>	<u>-</u>	<u>134,101</u>
Change in net assets	15,146	5,600	20,746
Net assets - beginning of year	<u>30,759</u>	<u>2,960</u>	<u>33,719</u>
Net assets - end of year	<u>\$ 45,905</u>	<u>\$ 8,560</u>	<u>\$ 54,465</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2010

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Salaries	\$ 86,899	\$ 1,372	\$ 10,875	\$ 99,146
Payroll taxes	6,437	105	809	7,351
Other	3,449	-	383	3,832
Total compensation	96,785	1,477	12,067	110,329
Professional fees (including in-kind of \$9,051)	3,362	-	6,725	10,087
Printing	-	-	5,767	5,767
Rent	1,588	1,588	1,588	4,764
Depreciation and amortization	4,095	76	76	4,247
Automobile and travel	4,119	-	-	4,119
Postage	-	-	2,952	2,952
Telephone	875	875	875	2,625
Supplies	481	481	481	1,443
Insurance	1,016	241	-	1,257
Other	-	947	-	947
Meals and entertainment	-	37	846	883
Taxes and licenses	-	225	-	225
Dues and subscriptions	-	76	-	76
Total expenses	\$ 112,321	\$ 6,023	\$ 31,377	\$ 149,721

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2009

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>		<u>Expenses</u>
Salaries	\$ 79,715	\$ 1,481	\$ 10,174	\$ 91,370
Payroll taxes	5,955	113	763	6,831
Other	2,081	-	231	2,312
Total compensation	87,751	1,594	11,168	100,513
Professional fees (including in-kind of \$6,488)	2,637	-	5,273	7,910
Printing	-	-	6,571	6,571
Rent (including in-kind of \$2,382)	1,588	1,588	1,588	4,764
Depreciation and amortization	4,043	22	22	4,087
Automobile and travel	3,598	-	-	3,598
Postage	-	-	2,234	2,234
Telephone	642	642	641	1,925
Insurance	884	325	-	1,209
Supplies	187	187	187	561
Other	-	141	243	384
Taxes and licenses	-	270	-	270
Dues and subscriptions	-	75	-	75
Total expenses	<u>\$ 101,330</u>	<u>\$ 4,844</u>	<u>\$ 27,927</u>	<u>\$ 134,101</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (10,719)	\$ 20,746
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,247	4,087
Changes in operating assets and liabilities:		
Unconditional promises to give	915	130
Prepaid expenses	644	(644)
Accounts payable and accrued expenses	(10,009)	8,577
	<u>(14,922)</u>	<u>32,896</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchase of equipment	(1,301)	-
Sale of investments	-	1,085
	<u>(1,301)</u>	<u>1,085</u>
Net cash (provided by) used in investing activities		
Net (decrease) increase in cash and cash equivalents	(16,223)	33,981
Cash and cash equivalents - beginning of year	54,731	20,750
Cash and cash equivalents - end of year	<u>\$ 38,508</u>	<u>\$ 54,731</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 statements 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, 2010 and 2009, the Organization had no permanently restricted net assets.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization’s financial position, results from activities, net assets or cash flows.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements 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 five years. Property and equipment are depreciated using the straight-line method.

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

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and or nature of any donor restrictions. Donor restricted 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 receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management considers all contributions receivable fully collectible at June 30, 2010 and 2009.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Facilities and Services

During the years ended June 30, 2010 and 2009, 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.

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code 501(c)(3). Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization has adopted guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This interpretation 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. This guidance must be applied to all existing tax positions upon initial adoption. The Organization has no tax penalties or interest reported in the accompanying financial statements. Adoption of this pronouncement had no impact on the Organization's financial condition or results of operations. The Organization had no uncertain tax positions at June 30, 2010 or 2009. Tax years that remain open for examination include the years ended June 30, 2007 through June 30, 2010.

Functional Expenses

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

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 2,309	\$ 3,826
Vehicle	<u>20,100</u>	<u>20,100</u>
	22,409	23,926
Less accumulated depreciation	<u>(15,305)</u>	<u>(13,876)</u>
	<u>\$ 7,104</u>	<u>\$ 10,050</u>

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 amounted to \$4,247 and \$4,087, respectively.

NOTE 3 – RESTRICTIONS ON NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Unconditional promises to give	\$ 1,915	\$ 2,830
Memorial Foundation – expand ministry	<u>-</u>	<u>5,730</u>
	<u>\$ 1,915</u>	<u>\$ 8,560</u>

NOTE 4 – RELATED PARTIES

During the year ended June 30, 2010, an accounting firm owned by a member of the board of directors donated accounting and tax services to the Organization valued at \$9,051. For the year ending June 30, 2010, the Organization paid \$397 per month for rent (which includes use of telephone and internet services). Total related party rent, telephone, and internet service reimbursement payments amounted to \$4,764 for the years ended June 30, 2010 and 2009.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 5 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a SIMPLE IRA 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 \$3,832 and \$2,312 for the years ended June 30, 2010 and 2009, respectively.

NOTE 6 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through May 3, 2011, when these financial statements were available to be issued. Management 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.