ENCOURAGEMENT MINISTRIES, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2017 and 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

ENCOURAGEMENT MINISTRIES, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors of
Encouragement Ministries, Inc.
Brentwood, Tennessee

We have audited the accompanying financial statements of Encouragement Ministries, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Encouragement Ministries, Inc. as of June 30, 2017, 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.

Prior Period Financial Statements

The financial statements as of and for the year ended June 30, 2016, were audited by other auditors whose report dated January 30, 2017, expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Nashville, Tennessee
February 27, 2018

ENCOURAGEMENT MINISTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 271,022	$ 219,959
Total Current Assets	271,022	219,959
Property and equipment, net	9,648	12,911
Intangible assets, net	807	1,059
Total Assets	$ 281,477	$ 233,929
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$ 3,282	$ 1,951
Total Current Liabilities	3,282	1,951
Net Assets:		
Unrestricted	278,195	231,978
Total Net Assets	278,195	231,978
Total Liabilities and Net Assets	$ 281,477	$ 233,929

The accompanying notes to the financial statements are an integral part of these statements.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Contributions	$ 221,990	$ -	$ 221,990
In-kind contributions	10,820	-	10,820
Other	(155)	-	(155)
Total Public Support and Revenue	232,655	-	232,655
Expenses:			
Program services	126,675	-	126,675
Supporting Services:			
Management and general	8,429	-	8,429
Fundraising	51,334	-	51,334
Total Supporting Services	59,763	-	59,763
Total Expenses	186,438	-	186,438
Change in net assets	46,217	-	46,217
Net assets, beginning of year	231,978	-	231,978
Net assets, end of year	$ 278,195	$ -	$ 278,195

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Contributions	$ 183,464	$ -	$ 183,464
In-kind contributions	11,914	-	11,914
Other	3,140	-	3,140
Total Public Support and Revenue	198,518	-	198,518
Expenses:			
Program services	127,299	-	127,299
Supporting Services:			
Management and general	6,142	-	6,142
Fundraising	40,534	-	40,534
Total Supporting Services	46,676	-	46,676
Total Expenses	173,975	-	173,975
Change in net assets	24,543	-	24,543
Net assets, beginning of year	207,435	-	207,435
Net assets, end of year	$ 231,978	$ -	$ 231,978

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Salaries	$ 101,601	$ 3,917	$ 13,456	$ 118,974
Payroll taxes	7,661	312	1,129	9,102
Benefits	3,117	120	413	3,650
Total Compensation	112,379	4,349	14,998	131,726
Professional fees (including in-kind of $8,061)	4,487	-	8,974	13,461
Printing	-	-	11,071	11,071
Other (including in-kind of $750)	-	639	4,609	5,248
Depreciation and amortization	4,507	170	296	4,973
Rent	1,588	1,588	1,588	4,764
Meals and entertainment (including in-kind of $1,926)	-	69	3,061	3,130
Supplies (including in-kind of $83)	87	87	2,867	3,041
Postage	-	-	2,885	2,885
Telephone	697	697	697	2,091
Automobile and travel	1,868	-	-	1,868
Insurance	1,062	475	-	1,537
Communications	-	-	288	288
Taxes and licenses	-	180	-	180
Dues and subscriptions	-	175	-	175
Total Expenses	$ 126,675	$ 8,429	$ 51,334	$ 186,438

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Salaries	$ 101,248	$ 2,629	$ 11,917	$ 115,794
Payroll taxes	7,630	201	1,027	8,858
Benefits	3,031	79	357	3,467
Total Compensation	111,909	2,909	13,301	128,119
Professional fees (including in-kind of $9,176)	4,792	-	9,584	14,376
Printing	-	-	7,712	7,712
Depreciation and amortization	4,474	138	264	4,876
Rent	1,588	1,588	1,588	4,764
Automobile and travel	3,087	-	-	3,087
Supplies (including in-kind of $1,375)	57	57	2,872	2,986
Postage	-	-	2,262	2,262
Telephone	620	620	620	1,860
Meals and entertainment (including in-kind of $1,363)	-	-	1,363	1,363
Insurance	772	475	-	1,247
Other	-	-	680	680
Communications	-	-	288	288
Taxes and licenses	-	180	-	180
Dues and subscriptions	-	175	-	175
Total Expenses	$ 127,299	$ 6,142	$ 40,534	$ 173,975

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 46,217	$ 24,543
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,973	4,876
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	1,331	(3,464)
Net cash provided by operating activities	52,521	25,955
Cash flows from investing activities:		
Purchase of equipment	(1,458)	-
Net cash used in investing activities	(1,458)	-
Net increase in cash and cash equivalents	51,063	25,955
Cash and cash equivalents, beginning of year	219,959	194,004
Cash and cash equivalents, end of year	$ 271,022	$ 219,959

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. At June 30, 2017 and 2016, the Organization had no temporarily restricted net assets.
>
> *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, 2017 and 2016, the Organization had no permanently restricted net assets.

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 three to seven 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.

Intangible Assets – The Organization amortizes intangible assets with finite lives on a straight-line basis over their estimated useful lives. Intangible assets are reviewed annually for impairment or when events or circumstances indicate their carrying amount may not be recoverable. No impairments were recorded for the years ended June 30, 2017 and 2016.

Note 1—Summary of significant accounting policies (continued)

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 level of the Organization's operations and program services are dependent upon donor contributions.

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. There were no contributions receivable as of June 30, 2017 and 2016.

Contributed Services – During the years ended June 30, 2017 and 2016, the values of contributed 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 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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. The Organization had no uncertain tax positions at June 30, 2017 or 2016. Tax years that remain open for examination include the years ended June 30, 2014 through June 30, 2017.

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.

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 1—Summary of significant accounting policies (continued)

Subsequent Events – The Organization evaluated subsequent events through February 27, 2018, when these financial statements were available to be issued. 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—Property and equipment

Property and equipment consisted of the following at June 30:

	2017	2016
Equipment	$ 5,651	$ 4,193
Vehicle	21,058	21,058
	26,709	25,251
Less accumulated depreciation	(17,061)	(12,340)
	$ 9,648	$ 12,911

Depreciation expense for the years ended June 30, 2017 and 2016, amounted to $4,721 and $4,624, respectively.

Note 3—Intangible assets

Intangible assets consisted of the following at June 30:

	2017	2016
Website design	$ 4,000	$ 4,000
Logo and identity	2,500	2,500
	6,500	6,500
Less accumulated depreciation	(5,693)	(5,441)
	$ 807	$ 1,059

Amortization expense for the years ended June 30, 2017 and 2016, amounted to $252 and $252, respectively.

Annual future aggregate estimated amortization expense of intangible assets for the next five years is as follows:

Year Ending June 30,	
2018	$ 250
2019	250
2020	250
2021	57
2022	-

Note 4—Related parties

During the year ended June 30, 2016, an accounting firm owned by a member of the board of directors donated accounting and tax services to the Organization valued at $9,176. The Organization paid the same firm $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 year ended June 30, 2016. The member did not serve on the board of directors during the year ended June 30, 2017.

Note 5—Employee benefit plan

The Organization sponsors a SIMPLE IRA covering the eligible employees. Plan expenses incurred by the Organization amounted to $3,650 and $3,467 for the years ended June 30, 2017 and 2016, respectively.