

**THE SHALOM FOUNDATION, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2013 AND 2012**

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 11

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Shalom Foundation, Inc.

We have audited the accompanying financial statements of The Shalom Foundation, Inc. (a Tennessee not-for-profit corporation, the "Organization") which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, 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.

Auditors' 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 from 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 auditors' 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 The Shalom Foundation, Inc. as of December 31, 2013 and 2012, 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.

Blankenship CPA Group, PLLC

July 31, 2014

THE SHALOM FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets		
Cash	\$ 515,467	\$ 513,188
Marketable Securities	6,112	3,381
Pledges Receivable	250	22,790
Prepaid Expenses	-	352
Total Current Assets	<u>521,829</u>	<u>539,711</u>
Property and Equipment, net	1,017,052	1,073,225
Other Asset		
Security Deposit	<u>-</u>	<u>6,281</u>
Total Assets	<u><u>\$ 1,538,881</u></u>	<u><u>\$ 1,619,217</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 55,916	\$ 70,519
Deferred Revenue	-	7,714
Total Current Liabilities	<u>55,916</u>	<u>78,233</u>
Net Assets		
Unrestricted Net Assets	1,481,085	1,540,984
Temporarily Restricted Net Assets	1,880	-
Total Net Assets	<u>1,482,965</u>	<u>1,540,984</u>
Total Liabilities and Net Assets	<u><u>\$ 1,538,881</u></u>	<u><u>\$ 1,619,217</u></u>

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

THE SHALOM FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Changes in Unrestricted Net Assets		
Public Support		
Donations	\$ 1,112,281	\$ 1,298,351
Special Events	386,433	219,060
In-Kind Donations	16,000	21,000
Interest Income	3,052	3,066
Unrealized Holding Gains	619	397
Total Public Support	<u>1,518,385</u>	<u>1,541,874</u>
Functional Expenses		
Program	1,472,804	1,174,154
Administrative	55,145	153,271
Fundraising	50,335	212,103
Total Functional Expenses	<u>1,578,284</u>	<u>1,539,528</u>
(Decrease) Increase in Unrestricted Net Assets	<u>(59,899)</u>	<u>2,346</u>
Changes in Temporarily Restricted Net Assets		
Contributions	<u>1,880</u>	<u>-</u>
Increase in Temporarily Restricted Net Assets	<u>1,880</u>	<u>-</u>
(Decrease) Increase in Net Assets	(58,019)	2,346
Net Assets, Beginning of Year	<u>1,540,984</u>	<u>1,538,638</u>
Net Assets, End of Year	<u><u>\$ 1,482,965</u></u>	<u><u>\$ 1,540,984</u></u>

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

THE SHALOM FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 140,547	\$ 35,137	\$ 19,520	\$ 195,204
Contract Labor	4,889	-	-	4,889
Payroll Taxes	13,560	3,296	1,873	18,729
Program Services	963,126	-	-	963,126
Rent	10,880	2,880	2,240	16,000
Depreciation	48,310	-	7,864	56,174
Travel and Meals	182,679	-	-	182,679
Advertising and Marketing Materials	220	-	36	256
Project Expense and Supplies	5,758	-	-	5,758
Repairs and Maintenance	17,089	4,272	2,373	23,734
Board/Committee Expenses	1,213	-	-	1,213
Computer Expense	1,574	394	219	2,187
Website Management	299	-	-	299
Professional Services	8,030	2,008	1,115	11,153
Supplies	8,486	2,121	1,179	11,786
Entertainment-Event	2,520	-	980	3,500
Meals-Event	8,477	-	1,352	9,829
Facility Rental Fee	7,484	-	2,910	10,394
Rental Equipment-Event	522	-	203	725
Insurance-Event	7,656	-	2,978	10,634
Seminars and Conferences	96	-	16	112
Dues and Subscriptions	3,152	788	438	4,378
Taxes and Licenses	232	58	32	322
Payroll Service Fees	1,415	354	197	1,966
Accounting Fees	7,153	1,788	994	9,935
Gifts	4,892	-	796	5,688
Bank and Credit Card Fees	8,978	-	1,461	10,439
Equipment Lease	2,321	-	-	2,321
Postage and Shipping	2,512	-	409	2,921
Printing and Copying	1,493	373	207	2,073
Utilities	6,704	1,676	931	9,311
Other	77	-	12	89
Team Shirts and Manuals	460	-	-	460
	<u>\$ 1,472,804</u>	<u>\$ 55,145</u>	<u>\$ 50,335</u>	<u>\$ 1,578,284</u>

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

THE SHALOM FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 163,602	\$ 43,307	\$ 33,683	\$ 240,592
Contract Labor	40,617	-	-	40,617
Payroll Taxes	13,258	3,509	2,730	19,497
Program Services	567,148	-	-	567,148
Rent	10,880	2,880	2,240	16,000
Depreciation	38,198	10,111	7,865	56,174
Travel and Meals	182,547	48,322	37,583	268,452
Advertising and Marketing Materials	2,289	606	471	3,366
Project Expense and Supplies	78,803	-	-	78,803
Repairs and Maintenance	2,736	725	563	4,024
Board/Committee Expenses	-	4,238	-	4,238
Computer Expense	4,245	1,124	874	6,243
Website Management	-	260	-	260
Professional Services	3,676	10,520	3,609	17,805
Supplies	25,992	6,881	5,351	38,224
Entertainment-Event	-	-	13,202	13,202
Meals-Event	-	-	54,902	54,902
Facility Rental Fee	-	-	4,689	4,689
Rental Equipment-Event	-	-	22,346	22,346
Insurance-Event	-	-	13,726	13,726
Seminars and Conferences	223	59	46	328
Dues and Subscriptions	3,317	878	683	4,878
Taxes and Licenses	456	121	94	671
Property Tax	33	8	7	48
Payroll Service Fees	1,455	385	299	2,139
Accounting Fees	-	8,040	-	8,040
Gifts	5,983	1,583	1,232	8,798
Bank and Credit Card Fees	8,362	2,212	1,721	12,295
Equipment Lease	-	2,119	-	2,119
Postage and Shipping	2,262	599	466	3,327
Printing and Copying	87	22	17	126
Utilities	13,424	3,554	2,764	19,742
Other	2,602	689	536	3,827
Team Shirts and Manuals	1,959	519	404	2,882
	<u>\$ 1,174,154</u>	<u>\$ 153,271</u>	<u>\$ 212,103</u>	<u>\$ 1,539,528</u>

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

THE SHALOM FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities:		
(Decrease) Increase in Net Assets	\$ (58,019)	\$ 2,346
Adjustments to Reconcile (Decrease) Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	56,174	56,174
Donated Stock	(2,113)	-
Unrealized Holding Gains	(619)	(397)
(Increase) Decrease in Operating Assets:		
Pledges Receivable	22,540	8,563
Inventory	-	1,800
Prepaid Expenses	352	(295)
Security Deposits	6,281	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(14,603)	4,003
Deferred Revenue	(7,714)	(12,901)
Net Cash Provided by Operating Activities	<u>2,279</u>	<u>59,293</u>
Net Increase in Cash	2,279	59,293
Cash, Beginning of Year	<u>513,188</u>	<u>453,895</u>
Cash, End of Year	<u><u>\$ 515,467</u></u>	<u><u>\$ 513,188</u></u>

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

THE SHALOM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The purpose of the Organization is to promote public awareness and facilitate support for underprivileged children in the United States and developing nations. The Organization currently has programs in Guatemala which provide educational and medical opportunities to children in some of the poorest areas of the country.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

Cash consists of cash on hand and on deposit at banks. The Organization generally maintains cash on deposit at financial institutions which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash. At December 31, 2013 and 2012, the Organization's uninsured cash balance totaled \$138,226 and \$127,055 respectively.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2013 or 2012.

Revenue Recognition

All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

**THE SHALOM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services

Donated goods are recorded as in-kind donations in the period received at their estimated fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance nonfinancial assets or the donated services require specialized skills, was performed by a donor who possess such skills, and would have been purchased by the Organization, if not donated. Such services are recognized at fair value as support and expense in the period the services were performed.

A number of unpaid volunteers have made contributions of their time to assist the Organization in various ways. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measure or valuation.

The Organization leased office space at 412 Cummins Street in Franklin, Tennessee. The lease, received as an in-kind donation, is treated as an operating lease and is recorded at its fair market value of \$16,000 for 2013 and 2012.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2013, no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

Security Deposit

Security deposit funds consist of a deposit made into a bank account in Guatemala in order to begin the process of establishing a legal non-profit organization in Guatemala. Once the new entity was established, this money was used for program expenses by the Organization.

THE SHALOM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program services - includes the direct costs of raising awareness of, and providing assistance to, underprivileged children in the United States and developing nations. Additionally, program services include an allocation of identified indirect costs which facilitate those activities.

Administrative - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Applicable costs include those associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting, and related purposes.

Fundraising - includes costs of activities directed towards appeals for financial support, including special events. Other activities include the cost of solicitation and creation and distribution of fundraising materials.

Property and Equipment and Depreciation

Property and equipment are reported at cost and include improvements that significantly add to the utility or extend useful lives. Costs of maintenance and repairs are charged to expense as incurred. When depreciable assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in income for the period. Assets are depreciated using the straight-line method over the estimated useful lives of the assets. The Organization capitalizes additions or betterments greater than \$1,000, and expenses assets purchased for Guatemala operations unless significant in nature.

THE SHALOM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3 - LEASES

Copier Lease

The Organization leased a copy machine on June 17, 2011 for a term of four years. This is a non-cancelable lease that has minimum payment requirements. Payments are required to be made monthly during the term of the lease. The future minimum lease payments are outlined below:

2014	\$ 1,285
2015	<u>642</u>
	<u>\$ 1,927</u>

NOTE 4 - INVESTMENTS

FASB ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or non-active markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs – Inputs to the valuation methodology are observable and significant to the fair value measurement.

All of the Organization's investments are equity securities and are classified as level 1 input and are being held as trading securities.

THE SHALOM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 - INVESTMENTS (CONTINUED)

The Organization's investment at December 31, 2013 consisted of marketable securities recorded at fair market value as summarized below:

	<u>Cost</u>	<u>Fair Market Value</u>
Marketable Securities	<u>\$ 5,493</u>	<u>\$ 6,112</u>

The Organization's investment at December 31, 2012 consisted of marketable securities recorded at fair market value as summarized below:

	<u>Cost</u>	<u>Fair Market Value</u>
Marketable Securities	<u>\$ 2,586</u>	<u>\$ 3,381</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2013	2012
Surgery Center	\$ 1,161,122	\$ 1,161,122
Office equipment and furniture	21,286	21,286
Less accumulated depreciation	<u>(165,356)</u>	<u>(109,183)</u>
	<u>\$ 1,017,052</u>	<u>\$ 1,073,225</u>

NOTE 6 - FOREIGN OPERATIONS

The Organization maintains a significant amount of property and equipment in Guatemala. As of December 31, 2013 and 2012, property and equipment in other countries, net of accumulated depreciation, amounted to \$1,013,421 and \$1,068,466 respectively. The Organization primarily conducts its program activities in Guatemala.

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 31, 2014, the date which the financial statements were available to be issued.