

**ENCOURAGEMENT MINISTRIES, INC.**

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

**For the years ended June 30, 2013 and 2012**

# **ENCOURAGEMENT MINISTRIES, INC.**

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## INDEPENDENT AUDITOR'S REPORT

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 statements of financial position as of June 30, 2013 and 2012, 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 Encouragement Ministries, Inc. as of June 30, 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.

*Frasier, Dean & Howard, PLLC*

Frasier, Dean & Howard, PLLC  
Nashville, TN  
January 6, 2014

**ENCOURAGEMENT MINISTRIES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 100,830	\$ 64,517
Due from employee	-	1,444
Prepaid expenses	<u>792</u>	<u>-</u>
Total current assets	<u>101,622</u>	<u>65,961</u>
Property and equipment, net	293	554
Intangible assets, net	<u>2,146</u>	<u>3,729</u>
Total assets	<u><u>\$ 104,061</u></u>	<u><u>\$ 70,244</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 6,533</u>	<u>\$ 5,751</u>
Total liabilities	<u>6,533</u>	<u>5,751</u>
Net assets:		
Unrestricted	<u>97,528</u>	<u>64,493</u>
Total net assets	<u>97,528</u>	<u>64,493</u>
Total liabilities and net assets	<u><u>\$ 104,061</u></u>	<u><u>\$ 70,244</u></u>

See accompanying notes.

**ENCOURAGEMENT MINISTRIES, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 167,529	\$ -	\$ 167,529
In-kind contributions	14,244	-	14,244
Grants	10,000	-	10,000
Other	13	-	13
	<u>191,786</u>	<u>-</u>	<u>191,786</u>
Total public support and revenue			
Expenses:			
Program services	<u>116,565</u>	<u>-</u>	<u>116,565</u>
Supporting services:			
Management and general	5,101	-	5,101
Fundraising	<u>37,085</u>	<u>-</u>	<u>37,085</u>
Total supporting services	<u>42,186</u>	<u>-</u>	<u>42,186</u>
Total expenses	<u>158,751</u>	<u>-</u>	<u>158,751</u>
Change in net assets	33,035	-	33,035
Net assets - beginning of year	<u>64,493</u>	<u>-</u>	<u>64,493</u>
Net assets - end of year	<u><u>\$ 97,528</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 97,528</u></u>

See accompanying notes.

**ENCOURAGEMENT MINISTRIES, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 168,616	\$ -	\$ 168,616
In-kind contributions	12,150	-	12,150
Other	45	-	45
Net assets released from restrictions	<u>747</u>	<u>(747)</u>	<u>-</u>
Total public support and revenue	<u>181,558</u>	<u>(747)</u>	<u>180,811</u>
Expenses:			
Program services	<u>124,109</u>	<u>-</u>	<u>124,109</u>
Supporting services:			
Management and general	6,070	-	6,070
Fundraising	<u>38,950</u>	<u>-</u>	<u>38,950</u>
Total supporting services	<u>45,020</u>	<u>-</u>	<u>45,020</u>
Total expenses	<u>169,129</u>	<u>-</u>	<u>169,129</u>
Change in net assets	12,429	(747)	11,682
Net assets - beginning of year	<u>52,064</u>	<u>747</u>	<u>52,811</u>
Net assets - end of year	<u><u>\$ 64,493</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 64,493</u></u>

See accompanying notes.

**ENCOURAGEMENT MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2013**

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 94,727	\$ 1,784	\$ 10,732	\$ 107,243
Payroll taxes	6,728	136	869	7,733
Other	2,592	49	293	2,934
Total compensation	104,047	1,969	11,894	117,910
Professional fees (including in-kind of \$12,877)	4,638	-	9,277	13,915
Printing	-	-	6,992	6,992
Rent	1,588	1,588	1,588	4,764
Automobile and travel	3,807	-	-	3,807
Postage	-	-	2,259	2,259
Telephone	643	643	642	1,928
Depreciation and amortization	878	87	879	1,844
Meals and entertainment (including in-kind of \$1,367)	-	22	1,411	1,433
Insurance	922	425	-	1,347
Supplies	42	42	1,210	1,294
Other	-	-	645	645
Communications	-	-	288	288
Taxes and licenses	-	200	-	200
Dues and subscriptions	-	125	-	125
Total expenses	<u>\$ 116,565</u>	<u>\$ 5,101</u>	<u>\$ 37,085</u>	<u>\$ 158,751</u>

See accompanying notes.



**ENCOURAGEMENT MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2012

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 99,268	\$ 2,336	\$ 11,712	\$ 113,316
Payroll taxes	7,453	179	987	8,619
Other	2,271	-	253	2,524
Total compensation	108,992	2,515	12,952	124,459
Professional fees (including in-kind of \$10,641)	3,880	-	7,761	11,641
Printing	-	-	8,359	8,359
Rent (including in-kind of \$400)	1,588	1,588	1,988	5,164
Automobile and travel	5,131	-	-	5,131
Depreciation and amortization	2,888	87	878	3,853
Supplies	56	56	2,212	2,324
Postage	-	-	2,117	2,117
Telephone	649	648	648	1,945
Insurance	925	830	-	1,755
Meals and entertainment (including in-kind of \$1,109)	-	79	1,108	1,187
Communications	-	-	507	507
Other	-	7	420	427
Taxes and licenses	-	260	-	260
Total expenses	<u>\$ 124,109</u>	<u>\$ 6,070</u>	<u>\$ 38,950</u>	<u>\$ 169,129</u>

See accompanying notes.

**ENCOURAGEMENT MINISTRIES, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 33,035	\$ 11,682
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,844	3,853
Changes in operating assets and liabilities:		
Due from employee	1,444	(1,444)
Prepaid expenses	(792)	-
Accounts payable and accrued expenses	<u>782</u>	<u>(274)</u>
Net cash provided by operating activities	<u>36,313</u>	<u>13,817</u>
Net increase in cash and cash equivalents	36,313	13,817
Cash and cash equivalents - beginning of year	<u>64,517</u>	<u>50,700</u>
Cash and cash equivalents - end of year	<u><u>\$ 100,830</u></u>	<u><u>\$ 64,517</u></u>

See accompanying notes.

**ENCOURAGEMENT MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**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. At June 30, 2013 and 2012, 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, 2013 and 2012, 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

**ENCOURAGEMENT MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment (Continued)**

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.

**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, 2013 and 2012.

**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. Approximately 11% of the Organization's revenues in 2012 were from a single contributor. 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, 2013 and 2012.

**Contributed Facilities and Services**

During the years ended June 30, 2013 and 2012, the values of contributed facilities and services meeting the requirements for recognition in the financial statements were recorded at their fair value.

**ENCOURAGEMENT MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributed Facilities and Services (Continued)**

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 fifty percent 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, 2013 or 2012. Tax years that remain open for examination include the years ended June 30, 2010 through June 30, 2013.

**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 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.

**ENCOURAGEMENT MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

The Organization evaluated subsequent events through January 6, 2014, when these financial statements were available to be issued. We are not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the financial statements.

**NOTE 2 – DUE FROM EMPLOYEE**

At June 30, 2012, the Organization had a receivable due from an employee in the amount of \$1,444. The receivable arose as a result of a payroll error related to the reporting and taxation of employee health insurance. The receivable was short-term in nature and non-interest bearing, and was fully resolved as of June 30, 2013.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Equipment	\$ 1,302	\$ 1,302
Vehicle	<u>20,100</u>	<u>20,100</u>
	21,402	21,402
Less accumulated depreciation	<u>(21,109)</u>	<u>(20,848)</u>
	<u>\$ 293</u>	<u>\$ 554</u>

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$261 and \$2,270, respectively.

**NOTE 4 – INTANGIBLE ASSETS**

Intangible assets consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Website design	\$ 4,000	\$ 4,000
Logo and identity	<u>2,500</u>	<u>2,500</u>
	6,500	6,500
Less accumulated amortization	<u>(4,354)</u>	<u>(2,771)</u>
	<u>\$ 2,146</u>	<u>\$ 3,729</u>

**ENCOURAGEMENT MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2013 and 2012**

**NOTE 4 – INTANGIBLE ASSETS (Continued)**

Amortization expense amounted to \$1,583 for both 2013 and 2012. Annual future aggregate estimated amortization expense of intangible assets for the next five years is as follows:

2014	\$ 583
2015	250
2016	250
2017	250
2018	250

**NOTE 5 - RELATED PARTIES**

During the years ended June 30, 2013 and 2012, an accounting firm owned by a member of the board of directors donated accounting and tax services to the Organization valued at \$12,877 and \$10,641, respectively. For the years ending June 30, 2013 and 2012, the Organization paid a related party \$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, 2013 and 2012.

During the year ended June 30, 2012, a marketing firm owned by a member of the board of directors donated space for an annual event held by the Organization. The value of the donated space was \$400.

**NOTE 6 – EMPLOYEE BENEFIT PLAN**

The Organization sponsors a SIMPLE IRA covering the full-time employee. Effective January 1, 2013, the Organization also began offering coverage to all part-time employees of the Organization. Under the plan, the Organization matches three percent of eligible employees' salary. Plan expenses incurred by the Organization amounted to \$2,934 and \$2,524 for the years ended June 30, 2013 and 2012, respectively.