

ENCOURAGEMENT MINISTRIES, INC.

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

For the years ended June 30, 2011 and 2010

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 statements of financial position of Encouragement Ministries, Inc. (a nonprofit organization) as of June 30, 2011 and 2010 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, 2011 and 2010 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

January 27, 2012

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,700	\$ 38,508
Unconditional promises to give	<u>-</u>	<u>1,915</u>
Total current assets	<u>50,700</u>	<u>40,423</u>
Property and equipment, net	2,824	7,104
Intangible assets, net	<u>5,312</u>	<u>-</u>
Total assets	<u><u>\$ 58,836</u></u>	<u><u>\$ 47,527</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 6,025</u>	<u>\$ 3,781</u>
Total liabilities	<u>6,025</u>	<u>3,781</u>
Net assets:		
Unrestricted	52,064	41,831
Temporarily restricted	<u>747</u>	<u>1,915</u>
Total net assets	<u>52,811</u>	<u>43,746</u>
Total liabilities and net assets	<u><u>\$ 58,836</u></u>	<u><u>\$ 47,527</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 136,649	\$ -	\$ 136,649
In-kind contributions	21,089	-	21,089
Grants	9,253	747	10,000
Other	65	-	65
Net assets released from restrictions	<u>1,915</u>	<u>(1,915)</u>	<u>-</u>
Total public support and revenue	<u>168,971</u>	<u>(1,168)</u>	<u>167,803</u>
Expenses:			
Program services	<u>115,698</u>	<u>-</u>	<u>115,698</u>
Supporting services:			
Management and general	5,578	-	5,578
Fundraising	<u>37,462</u>	<u>-</u>	<u>37,462</u>
Total supporting services	<u>43,040</u>	<u>-</u>	<u>43,040</u>
Total expenses	<u>158,738</u>	<u>-</u>	<u>158,738</u>
Change in net assets	10,233	(1,168)	9,065
Net assets - beginning of year	<u>41,831</u>	<u>1,915</u>	<u>43,746</u>
Net assets - end of year	<u><u>\$ 52,064</u></u>	<u><u>\$ 747</u></u>	<u><u>\$ 52,811</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 FUNCTIONAL EXPENSES
For the year ended June 30, 2011

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 89,705	\$ 2,097	\$ 10,682	\$ 102,484
Payroll taxes	6,451	160	859	7,470
Other	2,525	-	281	2,806
Total compensation	98,681	2,257	11,822	112,760
Professional fees (including in-kind of \$13,589)	4,863	-	9,726	14,589
Printing	-	-	9,173	9,173
Depreciation and amortization	4,700	87	681	5,468
Rent	1,588	1,588	1,588	4,764
Automobile and travel	3,569	-	-	3,569
Telephone	620	620	619	1,859
Supplies	264	264	1,293	1,821
Postage	-	-	1,639	1,639
Insurance	913	325	-	1,238
Website design	500	-	500	1,000
Other	-	-	421	421
Taxes and licenses	-	290	-	290
Meals and entertainment	-	91	-	91
Dues and subscriptions	-	56	-	56
Total expenses	<u>\$ 115,698</u>	<u>\$ 5,578</u>	<u>\$ 37,462</u>	<u>\$ 158,738</u>

See accompanying notes.

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

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
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	<u>\$ 112,321</u>	<u>\$ 6,023</u>	<u>\$ 31,377</u>	<u>\$ 149,721</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,065	\$ (10,719)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,468	4,247
In-kind contribution of intangible assets	(6,500)	-
Changes in operating assets and liabilities:		
Unconditional promises to give	1,915	915
Prepaid expenses	-	644
Accounts payable and accrued expenses	<u>2,244</u>	<u>(10,009)</u>
Net cash provided by (used in) operating activities	<u>12,192</u>	<u>(14,922)</u>
Cash flows from investing activities:		
Purchase of equipment	<u>-</u>	<u>(1,301)</u>
Net cash used in investing activities	<u>-</u>	<u>(1,301)</u>
Net increase (decrease) in cash and cash equivalents	12,192	(16,223)
Cash and cash equivalents - beginning of year	<u>38,508</u>	<u>54,731</u>
Cash and cash equivalents - end of year	<u><u>\$ 50,700</u></u>	<u><u>\$ 38,508</u></u>
Supplemental schedule of non-cash financing and investing activities:		
In-kind contribution of intangible assets	<u><u>\$ 6,500</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011 and 2010, 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.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 year ended June 30, 2011, the first year in which the Organization recorded any intangible assets.

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 contributions 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, 2011 and 2010.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Facilities and Services

During the years ended June 30, 2011 and 2010, 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. The Organization had no uncertain tax positions at June 30, 2011 or 2010. Tax years that remain open for examination include the years ended June 30, 2008 through June 30, 2011.

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.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

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

	<u>2011</u>	<u>2010</u>
Equipment	\$ 1,302	\$ 2,309
Vehicle	<u>20,100</u>	<u>20,100</u>
	21,402	22,409
Less: accumulated depreciation	<u>(18,578)</u>	<u>(15,305)</u>
	<u>\$ 2,824</u>	<u>\$ 7,104</u>

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$4,280 and \$4,247, respectively.

NOTE 3 – INTANGIBLE ASSETS

	<u>2011</u>	<u>2010</u>
Website design	\$ 4,000	\$ -
Logo and identity	<u>2,500</u>	<u>-</u>
	6,500	-
Less: accumulated depreciation	<u>(1,188)</u>	<u>-</u>
	<u>\$ 5,312</u>	<u>\$ -</u>

Amortization expense for the year ended June 30, 2011 amounted to \$1,188. Annual future aggregate estimated amortization expense of intangible assets for the next five years is as follows:

2012	\$ 1,583
2013	1,583
2014	583
2015	250
2016	250

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 4 – RESTRICTIONS ON NET ASSETS

	<u>2011</u>	<u>2010</u>
Unconditional promises to give	\$ -	\$ 1,915
Memorial Foundation – expand ministry	<u>747</u>	<u>-</u>
	<u>\$ 747</u>	<u>\$ 1,915</u>

NOTE 5 – RELATED PARTIES

During the years ended June 30, 2011 and 2010, an accounting firm owned by a member of the board of directors donated accounting and tax services to the Organization valued at \$13,589 and \$9,051, respectively. For the years ending June 30, 2011 and 2010, the Organization paid \$397 per month for rent (which includes use of telephone and internet services) to the accounting firm. Total related party rent, telephone, and internet service reimbursement payments amounted to \$4,764 for the years ended June 30, 2011 and 2010.

During the year ended June 30, 2011, a marketing firm owned by a member of the board of directors donated services for the design of the Organization's new logo and the development and implementation of the Organization's new website. The value of the services provided amounted to \$7,500.

NOTE 6 – 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 \$2,806 and \$3,832 for the years ended June 30, 2011 and 2010, respectively.

NOTE 7 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through January 27, 2012, 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.