

**THE SHALOM FOUNDATION, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The Shalom Foundation, Inc.

### Report on the Financial Statements

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, 2016 and 2015, 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, 2016 and 2015, 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2015 Financial Statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*Blankinship CPA Group, PLLC*

October 11, 2017

**THE SHALOM FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

<b>ASSETS</b>		
	<b>2016</b>	<b>2015</b>
Current Assets		
Cash - Unrestricted	\$ 17,521	\$ 56,479
Marketable Securities	43,853	5,685
Pledges Receivable	12,050	21,819
Prepaid Expenses	941	3,212
Total Current Assets	<u>74,365</u>	<u>87,195</u>
Property and Equipment, net	987,668	1,028,614
Other Assets		
Cash - Restricted	<u>37,436</u>	<u>-</u>
Total Assets	<u><u>\$ 1,099,469</u></u>	<u><u>\$ 1,115,809</u></u>

  

<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable	\$ 93,912	\$ 104,669
Deferred Revenue	<u>21,500</u>	<u>57,000</u>
Total Current Liabilities	<u>115,412</u>	<u>161,669</u>
Net Assets		
Unrestricted Net Assets	946,621	954,140
Temporarily Restricted Net Assets	<u>37,436</u>	<u>-</u>
Total Net Assets	<u>984,057</u>	<u>954,140</u>
Total Liabilities and Net Assets	<u><u>\$ 1,099,469</u></u>	<u><u>\$ 1,115,809</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, 2016 AND 2015**

	2016	2015
Changes in Unrestricted Net Assets		
Public Support		
Donations	\$ 615,186	\$ 763,650
Special Events	218,463	29,740
In-Kind Donations	16,000	16,000
Rental Income	6,750	-
Interest Income	366	8,579
Unrealized Holding Gain (Loss)	2,798	(1,031)
Total Public Support	<u>859,563</u>	<u>816,938</u>
Functional Expenses		
Program	810,729	978,768
Administrative	16,119	39,180
Fundraising	40,234	70,357
Total Functional Expenses	<u>867,082</u>	<u>1,088,305</u>
Decrease in Unrestricted Net Assets	<u>(7,519)</u>	<u>(271,367)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	<u>37,436</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>29,917</u>	<u>(271,367)</u>
Net Assets, Beginning of Year	<u>954,140</u>	<u>1,225,507</u>
Net Assets, End of Year	<u><u>\$ 984,057</u></u>	<u><u>\$ 954,140</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, 2016**

	Program	Administrative	Fundraising	Total
Salaries and Wages	\$ 31,514	\$ 7,879	\$ 4,377	\$ 43,770
Contract Labor	2,120	-	-	2,120
Payroll Taxes	2,718	679	377	3,774
Support Services	626,681	-	-	626,681
Rent	10,880	2,880	2,240	16,000
Depreciation	47,567	-	7,743	55,310
Travel and Meals	52,762	-	-	52,762
Advertising and Marketing Materials	249	-	40	289
Project Expense and Supplies	866	-	-	866
Repairs and Maintenance	2,357	589	327	3,273
Board and Committee Expenses	1,441	-	-	1,441
Computer Expense	2,357	590	328	3,275
Website Management	323	-	-	323
Professional Services	50	13	7	70
Supplies-Event	-	-	6,483	6,483
Entertainment-Event	-	-	3,723	3,723
Meals-Event	-	-	4,754	4,754
Insurance-Event	-	-	3,212	3,212
Facility Rental Fee	-	-	2,598	2,598
Seminars and Conferences	13	-	2	15
Dues and Subscriptions	675	169	94	938
Taxes and Licenses	421	105	59	585
Payroll Service Fees	1,422	356	198	1,976
Accounting Fees	7,023	1,756	976	9,755
Gifts	150	-	25	175
Bank and Credit Card Fees	10,924	-	1,778	12,702
Equipment Lease	2,083	-	-	2,083
Postage and Shipping	1,236	-	201	1,437
Printing and Copying	400	100	56	556
Utilities	4,014	1,003	557	5,574
Other	483	-	79	562
	<u>\$ 810,729</u>	<u>\$ 16,119</u>	<u>\$ 40,234</u>	<u>\$ 867,082</u>

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

**THE SHALOM FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 100,987	\$ 25,247	\$ 14,026	\$ 140,260
Contract Labor	931	-	-	931
Payroll Taxes	7,657	1,861	1,058	10,576
Support Services	654,086	-	-	654,086
Rent	10,880	2,880	2,240	16,000
Depreciation	54,757	-	8,914	63,671
Travel and Meals	86,986	-	-	86,986
Advertising and Marketing Materials	4,928	-	802	5,730
Project Expense and Supplies	3,181	-	-	3,181
Repairs and Maintenance	3,400	850	472	4,722
Board and Committee Expenses	1,360	-	-	1,360
Website Management	350	-	-	350
Professional Services	12,916	3,229	1,794	17,939
Supplies-Event	-	-	4,267	4,267
Entertainment-Event	-	-	3,850	3,850
Meals-Event	-	-	10,878	10,878
Rental Equipment-Event	-	-	825	825
Insurance-Event	-	-	10,544	10,544
Facility Rental Fee	-	-	5,590	5,590
Seminars and Conferences	137	-	22	159
Dues and Subscriptions	3,813	953	530	5,296
Taxes and Licenses	301	75	42	418
Payroll Service Fees	1,488	372	207	2,067
Accounting Fees	7,222	1,806	1,003	10,031
Gifts	1,864	-	304	2,168
Bank and Credit Card Fees	9,893	-	1,610	11,503
Equipment Lease	2,043	-	-	2,043
Postage and Shipping	955	-	155	1,110
Printing and Copying	624	156	87	867
Utilities	7,004	1,751	973	9,728
Other	1,005	-	164	1,169
	<u>\$ 978,768</u>	<u>\$ 39,180</u>	<u>\$ 70,357</u>	<u>\$ 1,088,305</u>

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

**THE SHALOM FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 29,917	\$ (271,367)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	55,310	63,671
Donated Securities	(35,370)	-
Unrealized Holding (Gain) Loss	(2,798)	1,031
(Increase) Decrease in Operating Assets:		
Pledges Receivable	9,769	53,380
Prepaid Expenses	2,271	(3,212)
Restricted Cash Received	(50,000)	-
(Decrease) Increase in Operating Liabilities:		
Accounts Payable	(10,757)	21,105
Deferred Revenue	(35,500)	36,100
	<u>(37,158)</u>	<u>(99,292)</u>
Net Cash Used by Operating Activities		
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	<u>(14,364)</u>	<u>(7,902)</u>
Net Cash Used by Investing Activities	<u>(14,364)</u>	<u>(7,902)</u>
Cash Flows from Financing Activities:		
Contributions Restricted for Purchasing Equipment	<u>50,000</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>50,000</u>	<u>-</u>
Net Decrease in Cash	(1,522)	(107,194)
Cash, Beginning of Year	<u>56,479</u>	<u>163,673</u>
Cash, End of Year	<u><u>\$ 54,957</u></u>	<u><u>\$ 56,479</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, 2016 AND 2015**

**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. The Organization's primary source of revenue includes donations and fundraising events.

**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 had no uninsured cash balance as of December 31, 2016 and 2015.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2016 and 2015.

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.

Deferred revenue represents collections for mission trips taking place after June 30. Prepaid expenses represent expenditures relating to those trips.

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.

**THE SHALOM FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Donated Goods and Services (Continued)

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 estimated 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 2016 and 2015.

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, 2016, 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 2013.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Allocations were made by the Organization based on their reviews of expenses as well as estimates made by management.

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.

**THE SHALOM FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional Allocation of Expenses (Continued)

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

A summary of contributions receivable as of December 31, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Due within one year	<u>\$ 12,050</u>	<u>\$ 21,819</u>

**NOTE 4 - INVESTMENTS**

The Organization uses Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, "Fair Value Measurement". FASB ASC 820 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.

**THE SHALOM FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 4 - INVESTMENTS (CONTINUED)**

All of the Organization's investments are equity securities with readily determinable fair values and are stated on the Statements of Financial Position at fair value based on quoted prices in active markets (all Level 1 measurements).

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of December 31:

	2016	2015
Surgery Center	\$ 1,181,588	\$ 1,169,024
Shalom House Guatemala	128,875	128,875
Office Equipment and Furniture	23,086	21,286
	<u>1,333,549</u>	<u>1,319,185</u>
Less: Accumulated Depreciation	<u>(345,881)</u>	<u>(290,571)</u>
	<u><u>\$ 987,668</u></u>	<u><u>\$ 1,028,614</u></u>

**NOTE 6 - FOREIGN OPERATIONS**

The Organization maintains a significant amount of property and equipment in Guatemala where it primarily conducts its program activities. As of December 31, 2016 and 2015, property and equipment in other countries, net of accumulated depreciation, amounted to \$985,284 and \$1,027,239, respectively.

**NOTE 7 - OPERATING LEASES**

The Organization leases certain office equipment under non-cancelable operating leases. Future estimated minimum lease payments required under the leases are as follows:

Year Ending <u>December 31,</u>	
2017	\$ 2,004
2018	<u>1,169</u>
	<u><u>\$ 3,173</u></u>

**NOTE 8 - SUPPLEMENTAL CASH FLOW DISCLOSURES**

During the year ended December 31, 2016, the Organization received donated securities in the amount of \$35,370.

**THE SHALOM FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 8 - SUPPLEMENTAL CASH FLOW DISCLOSURES (CONTINUED)**

Cash consists of the following amounts as of December 31, 2016:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash, Beginning of Year	\$ 56,479	\$ -	\$ 56,479
Net (Decrease) Increase in Cash	<u>(38,958)</u>	<u>37,436</u>	<u>(1,522)</u>
Cash, End of Year	<u>\$ 17,521</u>	<u>\$ 37,436</u>	<u>\$ 54,957</u>

Cash consists of the following amounts as of December 31, 2015:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash, Beginning of Year	\$ 163,673	\$ -	\$ 163,673
Net Decrease in Cash	<u>(107,194)</u>	<u>-</u>	<u>(107,194)</u>
Cash, End of Year	<u>\$ 56,479</u>	<u>\$ -</u>	<u>\$ 56,479</u>

**NOTE 9 - RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets consist of the following at December 31:

	<b>2016</b>	<b>2015</b>
Cash restricted for purchase of equipment	<u>\$ 37,436</u>	<u>\$ -</u>

**NOTE 10 - CONDITIONAL PROMISES TO GIVE**

The Organization entered into an agreement where the sales tax revenue collected on ticket sales from a concert would be donated to the Organization under the condition that the Organization's sales tax exemption status remained in good standing for a specified number of years. Approximately \$851,000 plus accrued interest will be delivered to the Organization where at that point they have agreed to donate 50% and 10% to two separate not-for-profit organizations. All items previously mentioned are set to occur in the following fiscal year. No revenue has been recognized as of December 31, 2016 related to this conditional promise to give.

**NOTE 11 - RELATED PARTIES**

The Organization sent payments of \$635,778 and \$636,513 for the years ended December 31, 2016 and 2015, respectively, to not-for-profit organizations in Guatemala that share common members of their Board of Directors. These payments are for assistance in covering program service expenses for the related not-for-profit organizations.

**THE SHALOM FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 12 - RESTATEMENT OF FINANCIAL STATEMENTS**

Net assets as of December 31, 2015 have been restated due to the correction of an error. The effects of the restatement are as follows:

	As Previously Reported	As Restated	Change
Statement of Financial Position			
Deferred Revenue	\$ -	\$ 57,000	\$ 57,000
Total Net Assets	<u>\$ 1,011,140</u>	<u>\$ 954,140</u>	<u>\$ (57,000)</u>
Statement of Activities and Changes in Net Assets			
Donations	\$ 755,500	\$ 763,650	\$ 8,150
Special Events	\$ 73,990	\$ 29,740	\$ (44,250)
Total Public Support	\$ 853,038	\$ 816,938	\$ (36,100)
Decrease in Unrestricted Net Assets	\$ (235,267)	\$ (271,367)	\$ (36,100)
Decrease in Net Assets	\$ (235,267)	\$ (271,367)	\$ (36,100)
Net Assets, Beginning of Year	<u>\$ 1,246,407</u>	<u>\$ 1,225,507</u>	<u>\$ (20,900)</u>
Statement of Cash Flows			
Decrease in Net Assets	\$ (235,267)	\$ (271,367)	\$ (36,100)
Increase in Deferred Revenue	<u>\$ -</u>	<u>\$ 36,100</u>	<u>\$ 36,100</u>

**NOTE 13 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 11, 2017, the date which the financial statements were available to be issued.