

ENCOURAGEMENT MINISTRIES, INC.

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

For the years ended June 30, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

Frasier, Dean & Howard, PLLC
Nashville, Tennessee
January 15, 2015

ENCOURAGEMENT MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 133,364	\$ 100,830
Prepaid expenses	-	792
Total current assets	<u>133,364</u>	<u>101,622</u>
Property and equipment, net	22,193	293
Intangible assets, net	<u>1,562</u>	<u>2,146</u>
Total assets	<u><u>\$ 157,119</u></u>	<u><u>\$ 104,061</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 5,683</u>	<u>\$ 6,533</u>
Total liabilities	<u>5,683</u>	<u>6,533</u>
Net assets:		
Unrestricted	<u>151,436</u>	<u>97,528</u>
Total net assets	<u>151,436</u>	<u>97,528</u>
Total liabilities and net assets	<u><u>\$ 157,119</u></u>	<u><u>\$ 104,061</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 193,056	\$ -	\$ 193,056
In-kind contributions	12,001	-	12,001
Grants	15,000	-	15,000
Other	12	-	12
	<u>220,069</u>	<u>-</u>	<u>220,069</u>
Expenses:			
Program services	122,480	-	122,480
Supporting services:			
Management and general	5,846	-	5,846
Fundraising	37,835	-	37,835
	<u>43,681</u>	<u>-</u>	<u>43,681</u>
Total expenses	<u>166,161</u>	<u>-</u>	<u>166,161</u>
Change in net assets	53,908	-	53,908
Net assets - beginning of year	<u>97,528</u>	<u>-</u>	<u>97,528</u>
Net assets - end of year	<u><u>\$ 151,436</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 151,436</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	116,565	-	116,565
Supporting services:			
Management and general	5,101	-	5,101
Fundraising	37,085	-	37,085
	<u>42,186</u>	<u>-</u>	<u>42,186</u>
Total supporting services			
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>\$ 97,528</u>	<u>\$ -</u>	<u>\$ 97,528</u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2014

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 100,488	\$ 2,086	\$ 11,436	\$ 114,010
Payroll taxes	7,291	160	952	8,403
Other	3,010	62	343	3,415
Total compensation	110,789	2,308	12,731	125,828
Professional fees (including in-kind of \$10,423)	3,807	-	7,615	11,422
Printing	-	-	7,633	7,633
Rent	1,588	1,588	1,588	4,764
Automobile and travel	3,408	-	-	3,408
Postage	-	-	2,715	2,715
Depreciation and amortization	975	683	975	2,633
Telephone	647	647	647	1,941
Meals and entertainment (including in-kind of \$1,578)	-	4	1,763	1,767
Supplies	171	171	1,212	1,554
Insurance	1,095	-	-	1,095
Other	-	-	668	668
Communications	-	-	288	288
Dues and subscriptions	-	225	-	225
Taxes and licenses	-	220	-	220
Total expenses	\$ 122,480	\$ 5,846	\$ 37,835	\$ 166,161

See accompanying notes.

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

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
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.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 53,908	\$ 33,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,633	1,844
Changes in operating assets and liabilities:		
Due from related party	-	1,444
Prepaid expenses	792	(792)
Accounts payable and accrued expenses	<u>(850)</u>	<u>782</u>
Net cash provided by operating activities	<u>56,483</u>	<u>36,313</u>
Cash flows from investing activities:		
Purchase of equipment	<u>(23,949)</u>	<u>-</u>
Net cash used in investing activities	<u>(23,949)</u>	<u>-</u>
Net increase in cash and cash equivalents	32,534	36,313
Cash and cash equivalents - beginning of year	<u>100,830</u>	<u>64,517</u>
Cash and cash equivalents - end of year	<u><u>\$ 133,364</u></u>	<u><u>\$ 100,830</u></u>

See accompanying notes.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013, 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

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

classes of assets over their estimated useful lives which range from five 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, 2014 and 2013.

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 contributions 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, 2014 and 2013.

Contributed Services

During the years ended June 30, 2014 and 2013, the values of contributed services meeting the requirements for recognition in the financial statements were recorded at their fair value. Contributed

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Services (Continued)

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, 2014 or 2013. Tax years that remain open for examination include the years ended June 30, 2011 through June 30, 2014.

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, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization evaluated subsequent events through January 15, 2015, 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 consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 4,193	\$ 1,302
Vehicle	<u>21,058</u>	<u>20,100</u>
	25,251	21,402
Less accumulated depreciation	<u>(3,058)</u>	<u>(21,109)</u>
	<u>\$ 22,193</u>	<u>\$ 293</u>

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$2,049 and \$261, respectively.

NOTE 3 – INTANGIBLE ASSETS

Intangible assets consist of the following at June 30:

	<u>2014</u>	<u>2013</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>(4,938)</u>	<u>(4,354)</u>
	<u>\$ 1,562</u>	<u>\$ 2,146</u>

Amortization expense for the years ended June 30, 2014 and 2013 amounted to \$584 and \$1,583, respectively.

ENCOURAGEMENT MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 3 – INTANGIBLE ASSETS (CONTINUED)

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

2015	\$ 250
2016	250
2017	250
2018	250
2019	250

NOTE 4 - RELATED PARTIES

During the years ended June 30, 2014 and 2013, an accounting firm owned by a member of the board of directors donated accounting and tax services to the Organization valued at \$10,423 and \$12,877, respectively. For the years ending June 30, 2014 and 2013, 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 years ended June 30, 2014 and 2013.

NOTE 5 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a SIMPLE IRA covering the eligible employees. Plan expenses incurred by the Organization amounted to \$3,415 and \$2,934 for the years ended June 30, 2014 and 2013, respectively.