

**SHIVELY AREA MINISTRIES, INC.
LOUISVILLE, KENTUCKY**

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2017 AND 2016**

SHIVELY AREA MINISTRIES, INC.

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Independent Auditor's Report

Board of Directors
Shively Area Ministries, Inc.
Louisville, Kentucky

We have audited the accompanying financial statements of **Shively Area Ministries, Inc.**, which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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 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 **Shively Area Ministries, Inc.** as of June 30, 2017 and 2016, 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.

Louisville, Kentucky
September 18, 2017

SHIVELY AREA MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

ASSETS		<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash	\$	191,530	\$ 151,420
Grants receivable		18,500	7,865
Donated food inventory		29,561	28,653
Investments		354,484	285,292
Prepaid expenses		7,470	7,686
Total Current Assets		601,545	480,916
 PROPERTY AND EQUIPMENT			
Building		699,747	699,747
Furniture and equipment		50,150	47,449
		749,897	747,196
Less accumulated depreciation		(277,220)	(238,540)
Net Property and Equipment		472,677	508,656
 TOTAL ASSETS		\$ 1,074,222	\$ 989,572
 LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current installments of long-term debt	\$	2,018	\$ 1,913
Accounts payable		4,896	3,947
Deferred revenue		52,450	44,290
Accrued expenses		31,808	17,470
Total Current Liabilities		91,172	67,620
 LONG-TERM DEBT , less current installments		6,745	8,763
 NET ASSETS			
Unrestricted		534,399	587,944
Unrestricted - board designated		354,484	285,292
Temporarily restricted		87,422	39,953
Total Net Assets		976,305	913,189
 TOTAL LIABILITIES AND NET ASSETS		\$ 1,074,222	\$ 989,572

See notes to financial statements.

SHIVELY AREA MINISTRIES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
REVENUES AND SUPPORT						
Public support	\$ 173,326	\$ 38,688	\$ 212,014	\$ 173,676	\$ 44,230	\$ 217,906
Donated advertising	-	-	-	87,750	-	87,750
Fundraising	147,248	-	147,248	145,704	-	145,704
Donated food	118,299	-	118,299	174,015	-	174,015
Governmental grants	-	84,700	84,700	-	84,700	84,700
Organizational grants	2,051	159,584	161,635	1,171	122,415	123,586
Organizational support	54,745	20,185	74,930	56,636	11,206	67,842
Other income	5,865	36	5,901	9,090	13	9,103
Investment income	27,506	-	27,506	3,334	-	3,334
Interest income	69	-	69	69	-	69
Loss on disposal of property and equipment	-	-	-	(416)	-	(416)
Net assets released from restrictions	255,724	(255,724)	-	284,796	(284,796)	-
Total Revenues and Support	784,833	47,469	832,302	935,825	(22,232)	913,593
EXPENSES						
Program services	613,128	-	613,128	662,560	-	662,560
Management and general	73,369	-	73,369	65,082	-	65,082
Fundraising:						
Donated advertising	-	-	-	87,750	-	87,750
Other fundraising expenses	82,689	-	82,689	64,591	-	64,591
	82,689	-	82,689	152,341	-	152,341
Total Expenses	769,186	-	769,186	879,983	-	879,983
Change in Net Assets	15,647	47,469	63,116	55,842	(22,232)	33,610
Net Assets at Beginning of Year	873,236	39,953	913,189	817,394	62,185	879,579
Net Assets at End of Year	\$ 888,883	\$ 87,422	\$ 976,305	\$ 873,236	\$ 39,953	\$ 913,189

See notes to financial statements.

SHIVELY AREA MINISTRIES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
DIRECT ASSISTANCE								
Food distributed	\$ 142,412	\$ -	\$ -	\$ 142,412	\$ 221,420	\$ -	\$ -	\$ 221,420
Utility assistance	101,281	-	-	101,281	90,809	-	-	90,809
Housing assistance	49,359	-	-	49,359	43,874	-	-	43,874
Program stability and emergency assistance	1,470	-	-	1,470	31,503	-	-	31,503
Winter help expenses	13,500	-	-	13,500	11,900	-	-	11,900
Medical assistance	16,402	-	-	16,402	10,706	-	-	10,706
Transportation	7,002	-	-	7,002	7,633	-	-	7,633
School supplies	5,500	-	-	5,500	5,500	-	-	5,500
Younger Women's Club	5,000	-	-	5,000	5,000	-	-	5,000
Other Assistance	3,940	-	-	3,940	-	-	-	-
Total Direct Assistance	345,866	-	-	345,866	428,345	-	-	428,345
ADMINISTRATIVE EXPENSES								
Salaries and wages	160,801	49,763	50,577	261,141	134,044	30,293	31,569	195,906
Public relations	-	-	2,508	2,508	-	10,274	-	10,274
Advertising - in-kind	-	-	-	-	-	-	87,750	87,750
Depreciation	37,807	2,700	-	40,507	34,044	2,432	-	36,476
Fundraising supplies	-	-	23,118	23,118	-	-	27,952	27,952
Office supplies	7,787	2,888	-	10,675	11,885	5,095	-	16,980
Payroll taxes	20,622	6,382	6,486	33,490	10,913	2,466	2,570	15,949
Professional fees	8,941	3,832	-	12,773	8,800	3,771	-	12,571
Insurance	9,275	662	-	9,937	10,014	715	-	10,729
Utilities	10,898	778	-	11,676	9,911	708	-	10,619
Repairs and maintenance	7,023	3,010	-	10,033	6,242	2,675	-	8,917
Other operating expenses	143	-	-	143	3,822	1,587	-	5,409
Volunteer appreciation	3,417	-	-	3,417	3,899	-	-	3,899
Membership fees	-	1,492	-	1,492	-	3,234	-	3,234
Bad debt expense	-	-	-	-	-	-	2,500	2,500
Fees and taxes	-	1,713	-	1,713	-	1,348	-	1,348
Bank charges	-	110	-	110	-	438	-	438
Interest	548	39	-	587	641	46	-	687
Total Administrative Expenses	267,262	73,369	82,689	423,320	234,215	65,082	152,341	451,638
Total Functional Expenses	\$ 613,128	\$ 73,369	\$ 82,689	\$ 769,186	\$ 662,560	\$ 65,082	\$ 152,341	\$ 879,983

See notes to financial statements.

SHIVELY AREA MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 63,116	\$ 33,610
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	40,507	36,476
Donated property and equipment	-	(2,400)
Imputed interest on interest-free debt	587	687
Unrealized (gains) loss on investments	(13,376)	(2,658)
Realized (gains) losses on investments	(7,197)	4,535
Loss on sale of property and equipment	-	416
(Increase) decrease in assets:		
Grants receivable	(10,635)	19,111
Prepaid expenses	216	5,239
Donated food inventory	(908)	19,721
Increase (decrease) in liabilities:		
Accounts payable	949	3,257
Deferred revenue	8,160	(7,140)
Accrued expenses	14,338	(311)
Net Cash Provided By Operating Activities	<u>95,757</u>	<u>110,543</u>
INVESTING ACTIVITIES		
Purchases of investments	(48,619)	(88,879)
Purchase of property and equipment	(4,528)	(24,496)
Net Cash Used In Investing Activities	<u>(53,147)</u>	<u>(113,375)</u>
FINANCING ACTIVITIES		
Payments received on contributions receivable	-	12,500
Repayment of long-term debt	(2,500)	(2,500)
Net Cash Provided By (Used In) Financing Activities	<u>(2,500)</u>	<u>10,000</u>
Net Increase in Cash	40,110	7,168
Cash at beginning of year	<u>151,420</u>	<u>144,252</u>
Cash at End of Year	<u>\$ 191,530</u>	<u>\$ 151,420</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Donated food inventory received	\$ 118,299	\$ 174,015
Donated food inventory distributed	117,792	193,744
Other donated items received	8,427	6,220
Donated property and equipment received	-	2,400

See notes to financial statements.

SHIVELY AREA MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

Shively Area Ministries, Inc. (the “Organization”) is a nonprofit organization whose goal is to provide for the needs of low-income individuals and families in the Shively, Kentucky area.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation

The Organization presents its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

Use of 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 the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk

The Organization maintains its cash at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At times, the balances may be in excess of federal insured limits. As of June 30, 2017 and 2016, the Organization had no uninsured balances.

Grants Receivable

Receivables consist of grants due to the Organization from various parties. The Organization utilizes the allowance method for recording bad debts. Management has determined no allowance was required at June 30, 2017 and 2016.

Inventory

Inventory consists of donated food items acquired primarily through donations from the general public. Management determines the value of donated food items based on a per-pound value using the weighted average price per pound as determined by Feeding America. This valuation method is applied to all the items donated throughout the year as well as to the items on hand as of year-end.

SHIVELY AREA MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

(1 – continued)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Contributions receivable are stated at the amount management expects to collect from outstanding balances. Management reviews all contribution receivable balances that are past due and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Estimated uncollectible accounts increase the allowance for doubtful accounts and when the accounts receivable are written off, the allowance for doubtful accounts is decreased.

Contributions of noncash assets are recorded at their fair value at the date of donation. Contributed services that require specific expertise and would normally have been purchased and donated services that create or enhance non-financial assets are recorded at fair market value. Those donated services that do not meet these specific criteria are not reflected in the financial statements.

Investments

The Organization's investments are stated at fair value. See Note 8 for additional discussions of fair value measurement. Purchases and sales of securities are recorded on a trade-date basis.

Management fees and operating expenses charged to the Organization for investments within the pooled separate accounts are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for these investments.

Property and Equipment

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are recorded as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method over the assets useful lives.

Expenditures for maintenance and repairs are expensed as incurred.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

SHIVELY AREA MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

(1 – continued)

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not provide for income taxes.

The Organization has implemented the accounting guidance for uncertainty in income taxes. Under that guidance, tax positions need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of June 30, 2017, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization files federal Form 990. Returns filed for tax years ended on or after June 30, 2014 are subject to examination. The Organization is not currently being examined and management believes its tax-exempt status would be upheld under examination.

(2) **ASSETS TRANSFERRED TO A RECIPIENT ORGANIZATION**

During the year ended June 30, 2017 and 2016, the Organization transferred \$43,400 and \$85,000, respectively to the Kentucky Baptist Foundation (the “Foundation”). Amounts reported in the statement of financial position under the caption of “Investments” represent the net cumulative transfers by the Organization to the Foundation, as well as earnings thereon. These amounts totaled \$354,484 and \$285,292 at June 30, 2017 and 2016, respectively. The Foundation holds and invests the funds on behalf of the Organization. The Foundation has no variance power over the funds. Instead, the funds are distributed to the Organization upon request to the Foundation.

(3) **INVESTMENTS**

The following is a summary of the Organization’s investments held as of June 30, 2017 and 2016:

	Cost	Net Appreciation (Depreciation) in Fair Value of Assets	Fair Value
June 30, 2017:			
Kentucky Baptist Foundation:			
Equity Fund	\$ 179,899	\$ 10,982	\$ 190,881
Fixed Income Fund	162,710	893	163,603
	\$ 342,609	\$ 11,875	\$ 354,484
 June 30, 2016:			
Kentucky Baptist Foundation:			
Equity Fund	\$ 146,078	\$ (2,342)	\$ 143,736
Fixed Income Fund	140,716	840	141,556
	\$ 286,794	\$ (1,502)	\$ 285,292

SHIVELY AREA MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

(4) **LONG-TERM DEBT**

Long-term debt at June 30, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Non-interest bearing uncollateralized note payable to individual in annual principal payments of \$2,500, maturing October 2020	\$ 8,763	\$ 10,676
Less payments due within one year	(2,018)	(1,913)
 Total long-term debt	 \$ <u>6,745</u>	 \$ <u>8,763</u>

A donor has provided an unsecured, interest-free loan totaling \$25,000 for the Organization's operations. Principal on the loan is due in full at maturity in fiscal year 2021 as detailed above. The Organization has previously recorded contribution revenue and a loan discount using a rate of 5.5%. The loan is reported in the statement of financial position net of an unamortized discount of \$1,237 and \$1,824 at June 30, 2017 and 2016, respectively. The discount on the loans is being amortized to interest expense over the life of the loan.

Following is a schedule by years of maturity requirements on long-term debt as of June 30, 2017:

Year Ending June 30:	
2018	\$ 2,018
2019	2,129
2020	2,246
2021	<u>2,370</u>
Total	\$ <u>8,763</u>

(5) **BOARD DESIGNATED FUNDS**

During 2015, the Board approved the establishment of a Board designated fund. The purpose of this balance is to fund the continued expansion of the Organization's program services. These funds are held in an investment account with the Kentucky Baptist Foundation, and totaled \$354,484 and \$285,292 at June 30, 2017 and 2016, respectively.

(6) **TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2017 and 2016, temporarily restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Housing assistance	\$ 45,212	\$ 15,814
Food programs	17,250	14,695
Other program services	<u>24,960</u>	<u>9,444</u>
	\$ <u>87,422</u>	\$ <u>39,953</u>

SHIVELY AREA MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

(7) EMPLOYEE RETIREMENT PLAN

The Organization sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. Under the plan, employees contribute a specified percentage of their salary, or a fixed dollar amount, to the plan. The organization contributes 3%. Contributions totaling \$14,453 and \$972 for the years ended June 30, 2017 and 2016, respectively, were made by the Organization, in addition to the elective deferrals made by employees.

(8) FAIR VALUE MEASUREMENTS

The Organization has adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 Fair Value Measurements, for financial and nonfinancial assets and liabilities.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Organization's financial assets and liabilities carried at fair value. The table below presents the balances of assets and liabilities measured at fair value on a recurring and non-recurring basis.

SHIVELY AREA MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

(8 – continued)

	Carrying Value			
	Level 1	Level 2	Level 3	Total
June 30, 2017:				
<i>Assets Measured on a Recurring Basis</i>				
Investments:				
Kentucky Baptist Foundation Equity Fund	\$ -	\$ 190,881	\$ -	\$ 190,881
Kentucky Baptist Foundation Fixed Income Fund	-	163,603	-	163,603
 <i>Assets Measured on a Non-Recurring Basis</i>				
Donated food inventory	-	-	29,561	29,561
 June 30, 2016:				
<i>Assets Measured on a Recurring Basis</i>				
Investments:				
Kentucky Baptist Foundation Equity Fund	\$ -	\$ 143,736	\$ -	\$ 143,736
Kentucky Baptist Foundation Fixed Income Fund	-	141,556	-	141,556
 <i>Assets Measured on a Non-Recurring Basis</i>				
Donated food inventory	-	-	28,653	28,653

Investments – Units in pooled separate accounts by the Kentucky Baptist Foundation are valued at the fair value of the assets underlying the funds. There have been no changes in the valuation techniques and related inputs used for assets measured at fair value during the year ended June 30, 2017.

Donated Food Inventory - Contributed food inventory is recorded at fair value on a non-recurring basis using level 3 inputs. The fair value is based on a per-pound value using the weighted average price per pound as determined by Feeding America.

(9) **DONATED ADVERTISING**

The Organization received an in-kind donation of advertising from a newspaper to promote its 2016 fall fundraising event. The fair value of \$87,750 was recognized as both revenue and expense for the year ended June 30, 2016. The amount is reported as fundraising expense on the statement of functional expenses.

(10) **SUBSEQUENT EVENTS**

The Organization has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through September 18, 2017, the date these financial statements were available to be issued. The Organization has determined that there are no such subsequent events.