

STREETS MINISTRIES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016

STREETS MINISTRIES, INC.

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Independent Auditor's Report

Board of Directors
Streets Ministries, Inc.
Memphis, Tennessee

We have audited the accompanying consolidated financial statements of Streets Ministries, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of July 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the eleven-month period ended July 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Streets Ministries, Inc. as of July 31, 2016, and the changes in its net assets and its cash flows for the eleven-month period ended July 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Frazee Ivy Davis PLC

Memphis, Tennessee
December 28, 2016

STREETS MINISTRIES, INC.*Consolidated Statement of Financial Position**July 31, 2016***ASSETS**

Cash and cash equivalents	\$ 264,825
Contributions receivable, net	224,507
Property and equipment, net	<u>7,893,335</u>
Total assets	<u>\$ 8,382,667</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	<u>\$ 82,361</u>
Total liabilities	<u>82,361</u>
Net assets	
Unrestricted	
Property and equipment	7,893,335
Other	<u>406,971</u>
Total net assets	<u>8,300,306</u>
Total liabilities and net assets	<u>\$ 8,382,667</u>

STREETS MINISTRIES, INC.*Consolidated Statement of Activities**For the eleven-month period ended July 31, 2016*

Support and other revenues	
Contributions	
Individuals and corporations	\$ 379,715
Churches	65,988
Public and private foundations	1,028,663
Fundraising	9,510
Interest income	309
Other income	18,930
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Total support and other revenues	1,503,115
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Expenses	
Program services	1,594,958
Supporting services	478,571
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Total expenses	2,073,529
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Change in net assets	(570,414)
Net assets, beginning	8,870,720
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Net assets, ending	\$ 8,300,306
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STREETS MINISTRIES, INC.

Consolidated Statement of Functional Expenses

For the eleven-month period ended July 31, 2016

	Program Services				Supporting Services			Total
	Ministry Activities	Education	SOUL	Subtotal	General and Administrative	Fundraising	Subtotal	
Salaries and related expenses								
Salaries	\$ 281,945	\$ 93,982	\$ 186,208	\$ 562,135	\$ 238,935	\$ 55,473	\$ 294,408	\$ 856,543
Employee insurance	82,643	27,548	41,212	151,403	64,354	14,941	79,295	230,698
Payroll taxes	28,631	9,544	15,303	53,478	22,730	5,277	28,007	81,485
Retirement	2,207	736	5,098	8,041	3,418	794	4,212	12,253
Total salaries and related expenses	395,426	131,810	247,821	775,057	329,437	76,485	405,922	1,180,979
Depreciation	237,035	47,407	-	284,442	8,889	2,963	11,852	296,294
Specific program expenditures	-	140,157	19,945	160,102	-	2,478	2,478	162,580
Utilities	76,261	15,252	-	91,513	2,860	954	3,814	95,327
Repairs and maintenance	61,203	20,387	-	81,590	2,550	849	3,399	84,989
Rent	35,460	11,820	5,987	53,267	1,665	555	2,220	55,487
General insurance	38,609	7,978	-	46,587	1,429	421	1,850	48,437
Office supplies and expense	13,880	4,627	8,329	26,836	8,945	8,944	17,889	44,725
Accounting and administrative fees	13,567	4,522	1,746	19,835	9,253	3,970	13,223	33,058
Telephone and internet	10,122	3,375	3,699	17,196	5,736	5,733	11,469	28,665
Summer camp expenditures	20,691	-	-	20,691	-	-	-	20,691
Transportation services	4,486	4,487	1,231	10,204	-	-	-	10,204
Training	2,009	2,008	179	4,196	1,401	1,395	2,796	6,992
Promotion and printing	-	-	3,442	3,442	-	1,659	1,659	5,101
	<u>\$ 908,749</u>	<u>\$ 393,830</u>	<u>\$ 292,379</u>	<u>\$ 1,594,958</u>	<u>\$ 372,165</u>	<u>\$ 106,406</u>	<u>\$ 478,571</u>	<u>\$ 2,073,529</u>

See notes to the consolidated financial statements.

STREETS MINISTRIES, INC.

Consolidated Statement of Cash Flows

For the eleven-month period ended July 31, 2016

Cash flows from operating activities	
Change in net assets	\$ (570,414)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	296,294
Change in operating assets and liabilities:	
Contributions receivable	20,507
Accounts payable and accrued expenses	<u>(1,215)</u>
Net cash used in operating activities	<u>(254,828)</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(36,217)</u>
Net cash used in investing activities	<u>(36,217)</u>
Change in cash and cash equivalents	(291,045)
Cash and cash equivalents, beginning	<u>555,870</u>
Cash and cash equivalents, ending	<u>\$ 264,825</u>

Note 1 – Organization and Activities

Streets Ministries, Inc. was founded in 1987 and incorporated under the laws of the State of Tennessee on December 1, 1998. These statements present the consolidated financial information of Streets Ministries, Inc., its wholly-owned subsidiaries Streets Ministries Management, LLC; Streets Ministries Downtown, LLC; Streets Ministries Graham Heights, LLC, Streets Ministries Raleigh, LLC; SOUL for the City, LLC; and Streets Ministries Real Estate, LLC (collectively "the Organization"). All intercompany balances and intercompany transactions have been eliminated in consolidation. The Organization has adopted July as its fiscal year end in order for its activities to follow the natural school year. Accordingly, the accompanying statements of activities, functional expenses, and cash flows is for the eleven months ended July 31, 2016.

The Organization is a Christian ministry dedicated to serving the core needs of adolescents ages 8-20, who generally live in under-resourced neighborhoods in the Downtown and Graham Heights areas of Memphis, with an array of educational, athletic, and mentor-based programming. The Organization, through the love of Jesus Christ, encourages and equips young people to achieve potential by realizing their God-given purpose.

The Organization conducts program and ministry activities from its facilities at 430 Vance for its inner-city ministries ("Downtown") and at 1304 N. Graham for its Kingsbury School District ministries ("Graham Heights").

The following is a synopsis of the Organization's major programs and their emphases:

- Ministry Activities - The Organization seeks to introduce adolescents to the Gospel of Jesus Christ and help them grow in their knowledge and understanding of God through weekly outreach meetings, small group Bible studies, and mentoring.
- Education - Pathways, Ready Readers, and Streets Smart, the mentoring and tutoring programming available at the Organization, are important resources for the academic needs of the adolescents served. The Organization seeks to walk alongside students helping them to identify their natural aptitude and create and pursue a plan for their future.
- Sending Out Urban Leaders (SOUL) - The mission of SOUL is to recruit, train, and resource potential leaders in order to impact the youth of Memphis with the Gospel of Jesus Christ.

Note 2 – Summary of Significant Accounting Policies*Basis of Accounting*

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting. Under this method of accounting, support and revenue are recognized when earned and expenses are recognized when incurred.

Consolidated Financial Statement Presentation

Under accounting standards for not-for-profit organizations, the Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All net assets and activities as of and for the eleven-month period ended July 31, 2016, were classified as unrestricted in the accompanying consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)*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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, held in banks, and maintained in money market accounts.

Contributions Receivable

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are initially reported at fair value using present value techniques and are adjusted annually for the time value of money. In the latter case, the interest element resulting from amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as contribution revenue. All contributions receivable as of July 31, 2016 are expected to be collected within one year, therefore, no allowance for uncollectible contributions has been recorded as of July 31, 2016.

Property and Equipment

The Organization records the acquisition of property and equipment at cost for purchased property or fair value (on the date contributed) for donated property. Depreciation is provided over the estimated useful service lives of five to thirty-nine years using the straight-line method. Repair and maintenance costs are expensed as incurred. Gain or loss on the retirement or disposal of assets is credited or charged to operations.

Revenue Recognition

The Organization receives support and revenue from a variety of sources including private contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Restricted contributions and investment income that is limited to specific uses by donor-imposed restriction are reported as unrestricted when the restrictions are met within the same reporting period. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets when the restriction expires or is satisfied.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2 – Summary of Significant Accounting Policies (continued)*In-Kind Contributions and Donated Services*

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the consolidated financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of property and equipment are recorded as unrestricted contributions at the date of donation unless the donor has temporarily or permanently restricted the donated asset to a specific purpose.

Income Taxes

The Organization is exempt from federal income taxes under Sections 501(c)(3) of the U.S. Internal Revenue Code and has been determined to be an organization that is not a private foundation. The Organization is not currently under tax examination and is no longer subject to examination by federal tax authorities for years prior to 2012. Based on the evaluation of the Organization's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the eleven-month period ended July 31, 2016.

Subsequent Events

Management has evaluated subsequent events through December 28, 2016, the date the consolidated financial statements were available to be issued.

Note 3 – Property and Equipment

Property and equipment at July 31, 2016, consists of the following:

Downtown	
Land	\$ 4,000
Buildings	4,604,279
Furniture and equipment	253,677
Vehicles	<u>81,628</u>
Sub-total	<u>4,943,584</u>
Graham Heights	
Land	189,232
Buildings	4,766,380
Furniture and equipment	<u>284,875</u>
Sub-total	<u>5,240,487</u>
Total property and equipment	10,184,071
Accumulated depreciation	<u>(2,290,736)</u>
Property and equipment, net	<u>\$ 7,893,335</u>
Depreciation expense for the eleven-month period	<u>\$ 296,294</u>

Note 4 – Operating Lease

The Organization has a non-cancellable operating lease to rent real property, specifically, 1.38 acres of land, for its Downtown facility. The lease term is for 99 years and provides for base monthly rent of \$3,750, plus the Organization's share of insurance, taxes, and maintenance costs. Beginning in 2015, and for each 10-year period thereafter, lease payments increase by the lesser of the change in the Consumer Price Index or 20%. Effective May 1, 2015, the rent was adjusted to \$4,500 per month.

For the eleven-month period ended July 31, 2016 rent expense incurred totaled \$55,487.

Future minimum lease payments are as follows:

<u>Year ending July 31,</u>	<u>Amount</u>
2017	\$ 54,000
2018	54,000
2019	54,000
2020	54,000
2021	54,000
Subsequently	<u>10,463,050</u>
	<u>\$ 10,733,050</u>

Note 5 – Retirement Plan

The Organization sponsors a defined contribution retirement plan covering certain eligible employees. The Organization made contributions of \$12,253 for the eleven-month period ended July 31, 2016.

Note 6 – Related Party Transactions

During the eleven-month period ended July 31, 2016, cash contributions from members of the Organization's board of directors totaled approximately \$21,120.

Note 7 – Concentrations of Risk*Cash*

The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk for cash and cash equivalents.

Revenues

For the eleven-month period ended July 31, 2016, the Organization derived approximately 63%, of its total revenues and support from one contributor.