

Financial Statements

Talbot House Ministries of Lakeland, Inc.

Year Ended June 30, 2017

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TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Talbot House Ministries of Lakeland, Inc.

I have audited the accompanying financial statements of Talbot House Ministries of Lakeland, Inc., which comprise the statement of financial position as of June 30, 2017 and the related statements of activities, functional expenses, and cash flows for the year 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 judgement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Talbot House Ministries of Lakeland, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

David R. Ramos, CPA

Lakeland, Florida
October 11, 2017

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

| | |
|--|---------------------|
| Cash | \$ 21,890 |
| Cash - trustee | 74,116 |
| Beneficial interest in assets held by others | 70,253 |
| Beneficial interest in trust | 371,341 |
| Support receivable | 506,756 |
| Other assets | 37,675 |
| Property and equipment, net | <u>3,828,200</u> |
| Total assets | <u>\$ 4,910,231</u> |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|---------------------|
| Due to bank | \$ 30,998 |
| Accounts payable | 80,077 |
| Funds held in trust | 74,116 |
| Accrued liabilities | 52,179 |
| Deferred revenue | 382,618 |
| Deferred mortgage | <u>500,000</u> |
| Total liabilities | 1,119,988 |
| Net assets: | |
| Temporarily restricted | 410,639 |
| Unrestricted | <u>3,379,604</u> |
| Total net assets | <u>3,790,243</u> |
| Total liabilities and net assets | <u>\$ 4,910,231</u> |

Read accompanying notes to financial statements.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|--------------|---------------------------|--------------|
| Revenues and other support | | | |
| Contributions and grants | \$ 3,651,953 | \$ 346,085 | \$ 3,998,038 |
| Special events | 241,437 | - | 241,437 |
| Services performed | 60,573 | - | 60,573 |
| Program fees | 105,893 | - | 105,893 |
| Other income | 4,763 | - | 4,763 |
| Interest | 17,069 | - | 17,069 |
| Net assets released from restrictions | 392,874 | (392,874) | - |
| Total revenues and other support | 4,474,562 | (46,789) | 4,427,773 |
| Expenses | | | |
| Program: | | | |
| Basic needs | 987,285 | - | 987,285 |
| Health and disability | 2,412,755 | - | 2,412,755 |
| Supporting work and independence | 875,823 | - | 875,823 |
| Employee solutions | 189,248 | - | 189,248 |
| Total program expenses | 4,465,111 | - | 4,465,111 |
| Management and general | 78,715 | - | 78,715 |
| Fundraising | 96,239 | - | 96,239 |
| Total expenses | 4,640,065 | - | 4,640,065 |
| Change in net assets | (165,503) | (46,789) | (212,292) |
| Net assets at beginning of year | 3,545,107 | 457,428 | 4,002,535 |
| Net assets at end of year | \$ 3,379,604 | \$ 410,639 | \$ 3,790,243 |

Read accompanying notes to financial statements.

TALBOT HOUSE MINISTRIES OF LAKE LAND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

| | Program Services | | | | | | |
|-------------------------------------|-----------------------|--------------------------|--------------------------|-------------------------------------|---------------------------|----------------------|-------------------------|
| | Basic Needs | Health and Disability | Work and Independence | Supporting Employee Solutions | Management and General | Fundraising | Total |
| Personnel | \$ 414,534 | \$ 601,604 | \$ 331,709 | \$ 174,929 | \$ 50,077 | \$ 51,852 | \$ 1,624,705 |
| Occupancy | 106,239 | 50,463 | 100,927 | 2,656 | 5,312 | - | 265,597 |
| Supplies | 261,592 | 1,663,350 | 248,513 | 6,540 | 13,080 | 44,387 | 2,237,462 |
| Depreciation | 69,694 | 33,105 | 66,210 | 1,742 | 3,485 | - | 174,236 |
| Office expense | 67,180 | 31,911 | 63,821 | 1,680 | 3,358 | - | 167,950 |
| Equipment rental and maintenance | 25,042 | 11,895 | 23,790 | 626 | 1,253 | - | 62,606 |
| Professional fees | 42,297 | 20,091 | 40,182 | 1,057 | 2,115 | - | 105,742 |
| Interest expense | 707 | 336 | 671 | 18 | 35 | - | 1,767 |
| Total expenses | <u>\$ 987,285</u> | <u>\$ 2,412,755</u> | <u>\$ 875,823</u> | <u>\$ 189,248</u> | <u>\$ 78,715</u> | <u>\$ 96,239</u> | <u>\$ 4,640,065</u> |

Read accompanying notes to financial statements.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

| | |
|---|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Change in net assets | \$ (212,292) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 174,236 |
| Increase (decrease) in assets: | |
| Support and program service receivable | (402,832) |
| Beneficial interests | 81,399 |
| Other assets | (35,600) |
| Decrease (increase) in liabilities: | |
| Due to bank | 30,998 |
| Accounts payable | 49,215 |
| Funds held in trust | 6,266 |
| Accrued liabilities | 32,934 |
| Deferred revenue | <u>378,639</u> |
| Net cash from operating activities | 102,963 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment | <u>(3,617)</u> |
| Net cash from investing activities | (3,617) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Line of credit reduction | <u>(77,500)</u> |
| Net cash from financing activities | <u>(77,500)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 21,846 |
| Cash at beginning of year | <u>74,160</u> |
| Cash at end of year | <u>\$ 96,006</u> |
| RECONCILIATION OF CASH ACCOUNTS: | |
| Cash | \$ 21,890 |
| Cash- trustee | <u>74,116</u> |
| Total cash accounts | <u>\$ 96,006</u> |

Read accompanying notes to financial statements.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES - Since 1979, Talbot House Ministries of Lakeland, Inc. (the "Organization"), a non-profit Florida corporation, has provided programs for emergency and recovery services for the needy. The expanded facilities at 814 North Kentucky Avenue meet the needs of hungry and homeless people. The non-residents are provided with warm meals, showers, clothing, and a bed for the night. Those who decide to commit themselves, with their addictions and problems, to a caring staff may be enrolled in the "Trustee Program."

Special programs such as the Trustee Renewal Program (trained by a professional Renewal Program coordinator), medical clinics (manned by paid staff and volunteer doctors and nurses), life-skills classes, and counseling help each individual take steps toward recovery. The addition of a "Transition House" and Block Building on Kentucky Avenue to replace the "Promise Place" apartment house for persons on SSI and trustees, have provided new opportunities for some to continue their climb to independent living.

Members of the staff, the board of directors, the auxiliary, the many volunteers, and donors work together with compassion and diligence to carry on this ministry. The Organization is supported by churches, organizations, corporate gifts, individual contributions, the United Way, and city, county, and federal governments.

METHOD OF ACCOUNTING - The Organization's policy is to prepare its financial statements on the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants' audit and accounting guide, *Not-for-Profit Entities*. Under this basis, revenue is recognized when earned, and expenses are recognized when incurred.

BASIS OF PRESENTATION - The Organization has adopted the Financial Accounting Standards Board Accounting Standard, *Not-for-Profit Entities* - presentation of financial statements. Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets consist of a beneficial interest in a lead trust and assets intended for on-the-job training. As of June 30, 2017, the Organization had no permanently restricted net assets.

LIQUIDITY - Assets are presented in the accompany statements of financial position according to their nearness of conversion to cash, and liabilities according to the nearness of their maturity, and resulting use of cash.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DONATED MATERIALS, SUPPLIES, AND PROFESSIONAL SERVICES - The Organization receives various contributed materials, supplies, and professional medical services used primarily for providing food, clothing, and medical services and supplies for people in need. Donated materials, supplies, and professional medical services totaled \$2,313,923 for the current year.

REVENUE RECOGNITION - The Organization recognizes grants, contracts and contributions of cash or other assets (such as land, buildings, and equipment) as restricted support if they are received with grantor or donor stipulations that limit the use of the donated assets. When a grantor or donor restriction expires, or when a stipulated time restriction ends, or purpose or restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization recognizes revenues from exchange transactions when the service is rendered. A receivable is recognized by the Organization for outstanding invoices or other known amounts due to it. The Organization considers its receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. The Organization does not charge interest on outstanding accounts receivable.

CASH - Cash consists of cash in banks. At times, the Organization's cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses from these accounts. Negative cash balances are reported as due to bank.

FEDERAL INCOME TAX - The Organization is exempt from federal and state income taxes as an organization described under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been made in the financial statements. The Organization does not have any uncertain tax positions or unrelated business income.

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT - The Organization adheres to Financial Accounting Standards Board Accounting Standards codification, *Fair Value Measurements and Disclosures*, which defines fair value as the price that should be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The standard establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The valuation methodologies used for assets measured at fair value are as follows:

Beneficial Interest in Asset Held by Others - Carrying value is measured at fair value with a valuation technique utilizing market prices at the close of the last business day for the statement period provided by the GiveWell Community Foundation of Greater Lakeland, Inc.

Beneficial Interest in Trust - The fair value of beneficial interest in trust assets is based on a valuation model that calculates the present value of estimated distributable income. The valuation model incorporates assumptions that market participants would use in estimating future distributable income. The Organization values its beneficial interest at the discounted present value of estimated future distributions it expects to receive.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT - Purchases of property and equipment in excess of \$500 are capitalized at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

FUNCTIONAL EXPENSES - The Organization allocates its expenses on a functional basis to its programs and support services. Expenses that can be identified with a specific program or support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are primarily allocated based on the amount of employee time involved.

MANAGEMENT EVALUATION - Management has evaluated subsequent events through October 11, 2017, the date which the financial statements were available for issuance.

NOTE 2 - AGENCY TRANSACTIONS

The asset account "Cash - trustee" and the liability account "Funds held in trust" represent the cash received by the Organization on behalf of the homeless people. The Organization's policy is to recognize the fair value of the cash received and an offsetting liability until the cash is distributed to the homeless person, at which time the asset and liability are removed from the Organization's books.

NOTE 3 - CONTRIBUTIONS FROM FUTURE TRUST INTEREST

The Organization recognizes the present value from future interest in trust in which the Organization is named a beneficiary. The asset is recorded at the present value of the beneficial interest, discounted at 3% for 2017. Any increase or decrease in the present value of this beneficial interest is recorded as a "change in valuation of future interests in trust" during each respective year.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|------------|------------|
| Beneficial interest in assets held by others | \$ - | \$ - | \$ 70,253 | \$ 70,253 |
| Beneficial interest in trust | \$ - | \$ - | \$ 371,341 | \$ 371,341 |

For Level 3 fair value measurement, tabular quantitative information about the significant unobservable inputs used in the fair value measurement is required unless the unobservable inputs are not developed by the reporting entity when measuring fair value.

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 assets shown above:

| | |
|---|------------|
| Beneficial interest in assets held by others, July 1, 2016 | \$ 65,565 |
| Interest income | 964 |
| Expenses | (574) |
| Net realized and unrealized gains | 4,298 |
| Beneficial interest in assets held by others, June 30, 2017 | \$ 70,253 |
| Beneficial interest in trust, July 1, 2016 | \$ 457,428 |
| Interest income | 13,913 |
| Payment received | (100,000) |
| Beneficial interest in trust, June 30, 2017 | \$ 371,341 |

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 5 - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of:

| | |
|-------------------------------|---------------------|
| Buildings | \$ 5,126,368 |
| Furniture and fixtures | 689,258 |
| Leasehold improvements | 309,246 |
| Land | 212,555 |
| Vehicles | <u>156,697</u> |
| | 6,494,124 |
| Less accumulated depreciation | <u>2,665,924</u> |
| Net property and equipment | <u>\$ 3,828,200</u> |

NOTE 6 - LINE OF CREDIT

The Organization has a \$100,000 unsecured revolving credit agreement with a bank. There were no borrowings outstanding at June 30, 2017. The note bears interest at the bank's prime lending rate plus 0.5 per annum and is due on demand. Interest paid in cash during the year was \$1,767.

NOTE 7 - DEFERRED MORTGAGE

The Organization received funding from the Federal Home Loan Bank in Atlanta (FHLB) under the Affordable Housing Program in the amount of \$500,000. The proceeds were required to be expended on the construction of the Fellowship House. The mortgage is non-interest bearing and is to be forgiven January 2029, provided that the Organization complies with the loan covenants set forth in the agreement.

TALBOT HOUSE MINISTRIES OF LAKELAND, INC.

NOTES TO FINANCIAL STATEMENTS

(concluded)

NOTE 8 - RELEASE OF TEMPORARILY RESTRICTED NET ASSETS

The net assets released from grant and contract restrictions by incurring expenses satisfying the restricted purpose, and those for which time restrictions passed during the year were as follows:

| | | |
|---------------------------------|----|----------------|
| United Way | \$ | 295,389 |
| George Jenkins Foundation, Inc. | | 11,398 |
| Beneficial interest in trust | | <u>86,087</u> |
| | \$ | <u>392,874</u> |

NOTE 9 - CONCENTRATION

In-kind contributions of materials, supplies and medical services included medical supplies of \$1,539,094. Of this amount, \$1,251,617 was provided by three donors.

NOTE 10 - CONTINGENCIES

The Organization participates in federal and local programs which are subject to financial and compliance audits to determine compliance with grant requirements. In the event that expenditures would be disallowed, repayment could be required.

NOTE 11 - RESTATEMENT

Net assets at June 30, 2016 has been restated as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Total</u> |
|-----------------------------------|---------------------|-----------------------------------|---------------------|
| Net assets as originally reported | \$ 4,002,535 | \$ - | \$ 4,002,535 |
| Restatement | <u>(457,258)</u> | <u>457,258</u> | <u>-</u> |
| Net assets as restated | <u>\$ 3,545,277</u> | <u>\$ 457,258</u> | <u>\$ 4,002,535</u> |

The restatement provides for the time restriction associated with the beneficial interest in a trust.