

SOUTH END COMMUNITY OUTREACH MINISTRIES
FINANCIAL STATEMENTS
For the year ended June 30, 2009

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
South End Community Outreach Ministries
Grand Rapids, MI

We have audited the accompanying statement of financial position of South End Community Outreach Ministries (SECOM) (a Michigan Non-Profit Corporation) as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of SECOM's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South End Community Outreach Ministries as of June 30, 2009, and the changes in its net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hastings, MI
November 9, 2009

Walker, Fluke & Sheldon, PLC

South End Community Outreach Ministries
Statement of Financial Position
June 30, 2009

Assets

Current assets:	
Cash and cash equivalents	\$ 79,662
Investments	2,500
Contributions receivable, net of allowance	43,064
Grants receivable, net of allowance	<u>25,345</u>
Total current assets	<u>150,571</u>
Property, furniture and equipment, net of Accumulated depreciation	<u>906,392</u>
Total assets	<u>\$ 1,056,963</u>

Liabilities and Net Assets

Current liabilities:	
Accrued and other liabilities	\$ 14,002
Current portion of notes payable	<u>16,239</u>
Total current liabilities	<u>30,241</u>
Long-term liabilities:	
Notes payable	<u>165,098</u>
Total long-term liabilities	<u>165,098</u>
Total liabilities	<u>195,339</u>
Net assets:	
Unrestricted	756,765
Temporarily restricted	104,859
Permanently restricted	<u>-</u>
Total net assets	<u>861,624</u>
Total liabilities and net assets	<u>\$ 1,056,963</u>

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

South End Community Outreach Ministries
Statement of Activities
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions and grants	\$ 341,239	\$ 1,270	\$ -	\$ 342,509
In-kind contributions	264,068	182	-	264,250
FEMA grant	-	14,434	-	14,434
Program fees	2,640	-	-	2,640
Rent income	34,920	-	-	34,920
Other	2,792	-	-	2,792
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>27,495</u>	<u>(27,495)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>673,154</u>	<u>(11,609)</u>	<u>-</u>	<u>661,545</u>
Expenses and losses:				
Program services	517,682	-	-	517,682
Supporting services:				
General and administrative	126,184	-	-	126,184
Fund-raising	<u>7,878</u>	<u>-</u>	<u>-</u>	<u>7,878</u>
Total expenses and losses	<u>651,744</u>	<u>-</u>	<u>-</u>	<u>651,744</u>
Changes in net assets	21,410	(11,609)	-	9,801
Net assets at beginning of year	<u>735,355</u>	<u>116,468</u>	<u>-</u>	<u>851,823</u>
Net assets at end of year	<u>\$ 756,765</u>	<u>\$ 104,859</u>	<u>\$ -</u>	<u>\$ 861,624</u>

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

**South End Community Outreach Ministries
Statement of Functional Expenses
For the Year Ended June 30, 2009**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund- Raising</u>	<u>Total</u>
Accounting	\$ 6,579	\$ 774	\$ 387	\$ 7,740
Employee wages and benefits	164,786	39,790	3,817	208,393
Telephone	1,550	1,221	88	2,859
Occupancy	9,481	22,936	418	32,835
Postage	187	798	334	1,319
Interest	-	15,160	-	15,160
Depreciation	-	31,352	-	31,352
Supplies	406	1,245	381	2,032
Insurance	2,366	5,678	104	8,148
General program	312,051	-	-	312,051
Contract labor	18,100	377	2,243	20,720
Administrative	807	1,642	20	2,469
Equipment	930	2,209	38	3,177
Staff development	-	2,409	-	2,409
Printing	421	544	34	999
Travel	18	49	14	81
	<u>18</u>	<u>49</u>	<u>14</u>	<u>81</u>
Total expenses and losses	<u>\$ 517,682</u>	<u>\$ 126,184</u>	<u>\$ 7,878</u>	<u>\$ 651,744</u>

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

South End Community Outreach Ministries
Statement of Cash Flows
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Change in net assets	\$ 9,801
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	31,352
Contributions restricted for building renovations	(1,270)
Changes in:	
Contributions receivable	20,890
Grants receivable	(4,354)
Accrued and other liabilities	(9,076)
Net cash received by operating activities	<u>47,343</u>
Cash flows from investing activities:	
Purchase of investments	(2,500)
Acquisition of property, furniture and equipment	(4,838)
Net cash used by investing activities	<u>(7,338)</u>
Cash flows from financing activities:	
Payments on notes payable	(44,590)
Contributions restricted for building renovations	1,270
Net cash used by financing activities	<u>(43,320)</u>
Net decrease in cash and cash equivalents	(3,315)
Cash and cash equivalents at beginning of year	<u>82,977</u>
Cash and cash equivalents at end of year	<u>\$ 79,662</u>
Supplemental cash flow disclosures:	
Interest paid	<u>\$ 15,160</u>

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

South End Community Outreach Ministries
Notes to Financial Statements
June 30, 2009

Note A: Summary of Significant Accounting Policies

Background - South End Community Outreach Ministries (SECOM) began in 1971 as a ministry of four United Methodist churches to meet neighborhood needs. The priorities of SECOM's programs are: 1) to reduce hunger; 2) to care for and support seniors; 3) to encourage and support the development of stable healthy families; 4) to nurture a positive developmental environment for children; and; 5) to champion a peer environment where everyone's contribution is valued.

SECOM currently operates the following programs:

- 1) Food pantry
- 2) Encouraging Family Foundations (parenting program)
- 3) Aerobic classes

SECOM generates revenue primarily from donations from the general public and grants from organizations.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes. SECOM does not currently have any permanently restricted net assets.

Cash and Cash Equivalents - For the statement of financial position and statement of cash flows, SECOM considers cash and cash equivalents to consist of cash balances in checking accounts and certificates of deposit. These accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. From time to time during the year, SECOM may have cash in these checking accounts and certificate of deposits in excess of the federally insured limit. SECOM has not experienced any loss on these accounts and does not believe that it is exposed to any significant risk.

The Federal Emergency Management Agency (FEMA) requires that SECOM maintain a separate bank account for all grants received from FEMA. SECOM was in compliance with this requirement during the year ended June 30, 2009.

Investments - SECOM carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains or losses are included in the change in net assets in the accompanying Statement of Activities.

South End Community Outreach Ministries
Notes to Financial Statements
June 30, 2009

Note A: Summary of Significant Accounting Policies (Continued)

Property, Furniture and Equipment - Property, furniture and equipment are carried at cost. Donations of property, furniture and equipment are recorded at estimated fair value at the time received. Such donations are reported as unrestricted support unless the donor has restricted the use of the donated asset to a specific purpose. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes over the estimates useful lives of the assets, which range from three to forty years.

Contributions - Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If the restriction will be met in the same reporting period, the support may be recorded as unrestricted.

Functional Expenses - Expenses have been charged directly to program, fundraising, or general and administrative categories based on specific identification. Indirect expenses have been allocated among the programs and supporting services benefited.

Income Taxes - The Internal Revenue Service has determined that SECOM is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. SECOM qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B: Advertising Expenses

SECOM expenses advertising costs as incurred. SECOM expensed \$0 during the year ended June 30, 2009.

Note C: Investments

Investments are carried at market value. The value assigned to investments received by gift is the market value at the date of donation. SECOM investments as of June 30, 2009 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Investments:			
Fidelity Cash Reserves	\$ 2,500	\$ 2,500	\$ 2,500
Total	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 2,500</u>

SECOM first investment with Fidelity was on May 20, 2009, therefore no investment return occurred during the year ended June 30, 2009.

South End Community Outreach Ministries
Notes to Financial Statements
June 30, 2009

Note D: Contributions Receivable

During fiscal year 2003, SECOM began soliciting contributions for a building-remodeling project. SECOM received promises to give and payments towards these promises during the fiscal year 2009. These promises to give are due to be collected and are reported as contributions receivable in the accompanying statement of financial position. Management has evaluated all of the outstanding contributions receivable at the end of the year as being collectable; therefore no allowance for doubtful accounts is recorded.

The expected maturities of contributions receivable are as follows:

Amounts due in:	
Less than one year	\$ 43,064
One year to five years	-
Estimated future cash flows of contributions receivable	43,064
Allowance for uncollectible amounts	-
Net Present value of contributions receivable	\$ 43,064

Note E: Grants Receivable

Grants receivable represents amounts due from the Grace Hunger Walk, Grand Rapids District United Methodist Church, and Child and Family Resource Council. The full amount is expected to be collected in the next fiscal year; therefore no allowance for doubtful accounts is required.

Note F: Property, Furniture and Equipment

A summary of property, furniture and equipment at June 30, 2009 is as follows:

Land	\$ 75,000
Building	300,000
Building improvements	654,635
Furniture and equipment	181,115
Software	16,611
Total property, furniture and equipment	1,227,361
Less: accumulated depreciation	(320,969)
Net property, furniture and equipment	\$ 906,392

Depreciation expense was \$31,352 for the year ended June 30, 2009.

South End Community Outreach Ministries
Notes to Financial Statements
June 30, 2009

Note G: Notes Payable

The following is a summary of notes payable at June 30, 2009:

Notes:

Building Fund note payable to Macatawa Bank, secured by real estate, with interest at 7.5%. This note requires monthly payments of \$2,441 through June 5, 2013 ending with a balloon payment of \$108,418 on July 2013.

\$ 181,337

Following are debt maturities for the years ended June 30:

2010	\$	16,239
2011		17,500
2012		18,858
2013		20,322
2014		<u>108,418</u>

\$ 181,337

Note H: Net Assets

Temporarily restricted net assets consist of the following at June 30, 2009.

Contributions for building remodeling project	\$	102,467
FEMA grant for food purchases		<u>2,391</u>

Total	\$	<u>104,858</u>
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Note I: Net Assets Released from Restrictions

Net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donor.

Satisfaction of building restrictions accomplished:		
Expenses incurred	\$	15,452
Satisfaction of FEMA grant restrictions accomplished:		
Expenses incurred		<u>12,043</u>

Total	\$	<u>27,495</u>
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Note J: In-kind Contributions

SECOM received donated materials and services during the fiscal year 2009. These in-kind donations are recorded as both revenue and expenses. Included in in-kind contributions are donations of program supplies valued at \$17,927, general supplies valued at \$895, Building materials valued at \$182, and food valued at \$245,246. Food donations are valued on a per pound basis and supplies are valued at estimated fair market value.

During the year volunteers have contributed a significant amount of time to SECOM without compensation. However, these services were not recognized as contributions in the financial statements as they do not meet the necessary accounting criteria.

South End Community Outreach Ministries
Notes to Financial Statements
June 30, 2009

Note K: Concentrations

As of June 30, 2009, approximately 87% of contributions receivable are due from one individual.

Note L: Fair Values of Financial Instruments

The following methods and assumptions were used by SECOM in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents and receivables: The carrying amounts reported in the Statement of Financial Position approximate fair value because of the short maturities of those instruments.

Investments: The fair values of investment securities are based on quoted market prices for those or similar investments.

The estimated fair values of SECOM's financial instruments for 2009 are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash and equivalents	\$ 79,662	\$ 79,662
Investments	2,500	2,500
Receivables	68,409	68,409
Financial liabilities:		
Notes payable	165,098	165,098

The following table represents SECOM's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	Carrying Amount	Fair Value Measurement at Reporting Date Using Quoted Prices In Active Markets For Identical Assets (Level 1)
Investments	\$ 2,500	\$ 2,500