

NORTH DALLAS SHARED MINISTRIES, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

NORTH DALLAS SHARED MINISTRIES, INC.

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CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2017	3
STATEMENT OF CASH FLOWS	4
STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017	5
NOTES TO FINANCIAL STATEMENTS	6 - 11



LORI K. ORTA, P.C.

Certified Public Accountant

Independent Auditor's Report

To the Board of Directors
North Dallas Shared Ministries, Inc.

We have audited the accompanying financial statements of North Dallas Shared Ministries, Inc. (a nonprofit organization) ("NDSM"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, 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

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 audits 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 qualified audit opinion.

Basis for Qualified Opinion

As described in Note 8 to the financial statements, inventory is not recorded in the financial statements. Accounting principles generally accepted in the United States of America require inventory to be recorded in the financial statements. The effects of not recording inventory in the accompanying financial statements have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of North Dallas Shared Ministries, Inc. as of December 31, 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.

Dallas, Texas
December 5, 2018

North Dallas Shared Ministries, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 325,290
Cash and cash equivalents - temporarily restricted	48,632
Investments	5,423,572
Pledges receivable	9,356
Pledges receivable - temporarily restricted	565,182
Other receivable	39,936
Prepaid expenses	<u>4,960</u>
Total current assets	<u>6,416,928</u>

PLEDGES RECEIVABLE - TEMPORARILY RESTRICTED - NET 321,419

PROPERTY, PLANT AND EQUIPMENT - NET 1,256,635

TOTAL ASSETS \$ 7,994,982

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	<u>\$ 60,364</u>
Total current liabilities	<u>60,364</u>

NET ASSETS

Unrestricted net assets	6,999,385
Temporarily restricted net assets	<u>935,233</u>
Total net assets	<u>7,934,618</u>

TOTAL LIABILITIES AND NET ASSETS \$ 7,994,982

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

North Dallas Shared Ministries, Inc.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions and grants	\$ 981,675	\$ 798,419	\$ 1,780,094
In-kind goods and services	4,200,342	-	4,200,342
Investment income	628,977	-	628,977
Usage fee income	14,656	-	14,656
Clothing sale	8,489	-	8,489
Other Income	12,220	-	12,220
Released from restrictions	172,695	(172,695)	-
Total support and revenues	<u>6,019,054</u>	<u>625,724</u>	<u>6,644,778</u>
EXPENSES			
Program services	5,434,559	-	5,434,559
Supporting services			
Management and general	78,412	-	78,412
Fundraising	6,438	-	6,438
Total expenses	<u>5,519,409</u>	<u>-</u>	<u>5,519,409</u>
CHANGES IN NET ASSETS	499,645	625,724	1,125,369
NET ASSETS, at beginning of year	<u>6,499,740</u>	<u>309,509</u>	<u>6,809,249</u>
NET ASSETS, at end of year	<u>\$ 6,999,385</u>	<u>\$ 935,233</u>	<u>\$ 7,934,618</u>

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

North Dallas Shared Ministries, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

Cash flows from operating activities	
Change in net assets	1,125,369
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	94,819
Discount on pledges receivable	13,581
Net realized and unrealized gains	(530,059)
Change in operating assets and liabilities, net	
Accounts receivable	(8,853)
Pledges receivable	(600,029)
Prepaid expenses	1
Accounts payable and accrued expenses	44,631
Net cash provided by operating activities	<u>139,460</u>
 Cash flows from investing activities:	
Acquisition of property, plant and equipment	(34,789)
Purchase of investments	(98,841)
Proceeds from investments	2,994
Net change in restricted cash	(48,632)
Net cash used in investing activities	<u>(179,268)</u>
 DECREASE IN CASH AND CASH EQUIVALENTS	(39,808)
 CASH AND CASH EQUIVALENTS, at beginning of year	<u>365,098</u>
 CASH AND CASH EQUIVALENTS, at end of year	<u>\$ 325,290</u>
 Supplemental disclosures of cash flow information	
Non-cash transactions	
Additions to property, plant and equipment via accounts payable and accrued expenses	<u>\$ 31,755</u>

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

North Dallas Shared Ministries, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program Services						Supporting Services		Total		
	Food Distribution	Financial Aid	School Uniforms and Educational Supplies	English as a Second Language	Medical Clinic	Clothes Closet	Total Program	Management and General	Fundraising	Supporting Services	Total
Rent assistance	\$ -	\$ 257,820	\$ -	\$ -	\$ -	\$ -	\$ 257,820	\$ -	\$ -	\$ -	\$ 257,820
Utilities assistance	-	56,904	-	-	-	-	56,904	-	-	-	56,904
Clothes expense	-	-	34,168	-	-	344,520	378,688	-	-	-	378,688
Transportation assistance	-	3,340	-	-	-	-	3,340	-	-	-	3,340
Food distribution	1,961,370	-	-	-	-	-	1,961,370	-	-	-	1,961,370
English second language classes	-	-	-	19,930	-	-	19,930	-	-	-	19,930
Clinic services	-	-	-	-	2,191,170	-	2,191,170	-	-	-	2,191,170
School supplies	-	-	50,149	-	-	-	50,149	-	-	-	50,149
Salaries and benefits	59,260	71,704	3,511	-	104,372	20,000	258,847	55,852	2,341	58,193	317,040
Occupancy expense	24,682	14,104	-	-	14,809	16,220	69,815	705	-	705	70,520
Printing	5,087	1,696	848	-	2,544	3,052	13,227	339	3,392	3,731	16,958
Telephone	4,452	1,484	371	-	371	371	7,049	297	74	371	7,420
Office supplies	6,620	2,207	552	-	552	-	9,931	772	331	1,103	11,034
Postage	675	225	60	-	60	60	1,080	119	300	419	1,499
Insurance	4,530	2,588	-	-	12,553	2,977	22,648	3,235	-	3,235	25,883
Professional fees	-	-	-	-	-	-	-	14,630	-	14,630	14,630
Vehicle expense	803	321	80	-	80	80	1,364	241	-	241	1,605
Repairs and maintenance	5,758	3,290	-	-	3,455	3,784	16,287	165	-	165	16,452
Computer expense	4,734	2,185	-	-	728	728	8,375	729	-	729	9,104
Depreciation expense	33,187	18,964	-	-	19,912	21,808	93,871	948	-	948	94,819
Miscellaneous expense	-	-	-	-	12,694	-	12,694	380	-	380	13,074
	<u>\$ 2,111,158</u>	<u>\$ 436,832</u>	<u>\$ 89,739</u>	<u>\$ 19,930</u>	<u>\$ 2,363,300</u>	<u>\$ 413,600</u>	<u>\$ 5,434,559</u>	<u>\$ 78,412</u>	<u>\$ 6,438</u>	<u>\$ 84,850</u>	<u>\$ 5,519,409</u>

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

North Dallas Shared Ministries, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

North Dallas Shared Ministries, Inc. (“NDSM”) is a Dallas based non-profit organization, incorporated in 1983, with the purpose of providing charitable assistance to persons in need. NDSM has four main goals to help low income people assume as much responsibility for their lives as they are able: (1) provide appropriate emergency assistance, (2) help give them access to health and community programs designed to help them achieve long-term stability, (3) promote their wellness and financial independence, and (4) develop resource materials that can lead to additional services and support. NDSM provides many layers of support through their various programs including food distribution, financial assistance, clothing distribution, providing school uniforms and school supplies for children, medical and dental services, tax preparation services, English as second language classes, and counseling support.

NDSM’s primary revenue sources are contributions and grants from individuals, corporations, foundations, and churches; as well as, a significant amount of support through donated goods and services.

Basis of Accounting

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, with the exception for the effects of the matter described in Note 8.

For reporting purposes, resources are classified into three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of NDSM and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors as reserve funds.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of NDSM 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 and changes in net assets as net assets released from restrictions. Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained in perpetuity. Generally, the donors of these assets permit NDSM to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2017.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an initial maturity of three months or less. The FDIC deposit insurance insures deposits, money market accounts and certificates of deposit up to \$250,000 per depositor, per insured bank for each ownership category. NDSM maintains cash balances in accounts located in Dallas, Texas, which at times may exceed federally insured limits. Uninsured balances totaled approximately \$52,000 at December 31, 2017.

North Dallas Shared Ministries, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Receivable

NDSM has an agreement with the Dallas County Welfare Department (“DCW”), to make rent payments on behalf of DCW’s welfare recipients. Due to the high volume of requests, DCW is unable to process rent assistance checks on a timely basis. Therefore, NDSM processes DCW’s check requests based solely on the information DCW provides, and is subsequently reimbursed by DCW. Checks written on behalf of DCW are put into the other receivable account, and when DCW reimburses NDSM for these rent payments, the receivable is reduced.

Pledges Receivable

Pledges receivable consist of unconditional promises to give from various donors. Management believes that all amounts will be received when due and that no allowance for uncollectible receivables is necessary. See Note 2.

Investments

NDSM carries investments in marketable securities with readily determinable fair values at their fair value in the accompanying statement of financial position. Fair values are based on quoted market prices. For the year ended December 31, 2017, NDSM’s portfolio includes equities. Income earned from investments, including unrealized gains and losses, is recorded in unrestricted net assets. See Note 3.

Investment securities are exposed to various risks, such as interest rate, overall market volatility and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could affect NDSM’s account balances and the amounts reported in the statement of financial position.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, if purchased, or at estimated fair value if donated. NDSM capitalizes expenditures for property, plant and equipment with an estimated useful life greater than one year. Maintenance and repairs are charged to expense as incurred. Depreciation of property, plant and equipment is computed on a straight-line basis over the estimated useful lives as follows:

	<u>Estimated Useful Lives</u>
Automobiles	5 years
Furniture and fixtures	7 years
Computers and software	3-7 years
Machinery and equipment	5-10 years
Building and improvements	10-40 years

As a part of an agreement with University of Texas Southwestern Medical Center (the “Center”), certain Center property, plant and equipment is used in NDSM’s medical clinic and is not included in the financial statements.

Accounts Payable and Accrued Expenses

Various expenses of NDSM that were incurred before December 31, 2017, but paid afterwards, have been reported as accounts payable and accrued expenses.

North Dallas Shared Ministries, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions are recorded as revenue at the time when an unassailable right to the gift has been established and the proceeds are measurable in amount. Conditional promises to give are not included as support until the conditions are substantially met.

In-kind Goods and Services

In-kind goods are reflected as contributions in the accompanying financial statements at their estimated fair value on the date of donation. In-kind services are reflected in the financial statements at the fair value of the services received if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that help NDSM's programs. The value of this donated time is not reflected in the accompanying consolidated financial statements because it does not meet the above criteria. See Note 6.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets for the year ended December 31, 2017. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Financial Instruments

The carrying value of cash and cash equivalents, pledges receivable – short term, accounts receivable, prepaid expenses and accounts payable and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities.

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 financial statements. Accordingly, actual results could differ from those estimates.

Income Taxes

NDSM is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

NDSM has concluded that it does not have any unrecognized tax benefits resulting from the current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding ASC 740, Income Taxes. NDSM does not have any outstanding interest or penalties, and none have been recorded in the statement of activities and changes in net assets for the year ended December 31, 2017. NDSM's informational returns filed are generally subject to examination for three years after the later of the due date or date of filing. As a result, NDSM is no longer subject to income tax examinations by tax authorities for years prior to 2014.

North Dallas Shared Ministries, Inc.
NOTES TO FINANCIAL STATEMENTS

2. PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2017:

Pledges receivable	\$ 909,538
Less: unamortized discount	<u>(13,581)</u>
	<u>\$ 895,957</u>
Net amounts due in:	
Less than one year	\$ 574,538
One year to seven years (less unamortized discount)	<u>321,419</u>
	<u>\$ 895,957</u>

The discount rate used was 1.875% for the year ended December 31, 2017. At December 31, 2017, approximately 82% of pledges receivable is from one donor.

3. INVESTMENTS

NDSM maintains cash and investments which are insured under Securities Investor Protection Corporation (“SIPC”) limits. SIPC provides up to \$500,000 of protection for securities and \$250,000 of protection for cash per customer. At December 31, 2017, uninsured balances totaled approximately \$4.9 million.

NDSM adopted ASC 820, *Fair Value Measurements* (“ASC 820”), which requires enhanced disclosures about investments that are measured and reported at fair value. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the NDSM’s investments and liabilities. Level 1 hierarchy uses quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available. Level 2 hierarchy uses other quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly. Level 3 hierarchy uses inputs that are unobservable and significant to the overall fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes to the methodologies used at December 31, 2017.

Equities – valued at the net asset value of shares held by NDSM at year end.

Investments consist of the following as of December 31, 2017:

	Fair Value <u>(Level 1)</u>
Equities	<u>\$ 5,423,572</u>

North Dallas Shared Ministries, Inc.
NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued)

Investment income consist of the following for the year ended December 31, 2017:

Realized gains	\$ 961
Unrealized gains	529,098
Interest and dividends	<u>98,918</u>
	<u>\$ 628,977</u>

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2017:

Land	\$ 110,879
Building	997,000
Building improvements	308,126
Automobiles	60,273
Equipment	336,881
Furniture and fixtures	18,422
Computers and software	82,870
Construction in process	<u>31,755</u>
	1,946,206
Less: accumulated depreciation	<u>(689,571)</u>
Total	<u>\$ 1,256,635</u>

Depreciation expense was \$94,819 for the year ended December 31, 2017.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following at December 31, 2017:

Time	\$ 45,182
Dental	105,000
Mental health	286,419
Renovations	450,000
Capital purchases	25,000
School uniforms	<u>23,632</u>
	<u>\$ 935,233</u>

Temporarily restricted net assts were released from restrictions for the following purposes for the year ended December 31, 2017:

Dental	\$ 70,000
Time	60,318
School uniforms	34,168
Administrative assistant salary	<u>8,209</u>
	<u>\$ 172,695</u>

North Dallas Shared Ministries, Inc.
NOTES TO FINANCIAL STATEMENTS

6. IN-KIND GOODS AND SERVICES

Various medical professionals and laboratories contribute services to NDSM's medical and dental clinic. The value of the professionals' services is recorded at \$65 - \$200 per client office visit based on comparable market rates for the services. The value of the contributed laboratory services is recorded at the value assigned by the contributing laboratory at comparable rates charged to their fee based clients.

Distributed food was valued at \$50 - \$125 per visit for the year ended December 31, 2017. This total was reduced by the amount of food purchased to determine the amount of food contributed by donors.

Distributed clothing was valued at \$60 per visit for the year ended December 31, 2017. This total was reduced by the amount of clothing purchased to determine the amount of clothing contributed by donors.

In-kind goods and services consist of the following at December 31, 2017:

Food	\$ 1,697,601
Clinic services	1,955,794
Clothing	331,947
Salaries	<u>215,000</u>
	<u>\$ 4,200,342</u>

7. FEDERAL EXPENDITURES

NDSM is the recipient of a multi-year project funding from the Federal Emergency Management Agency ("FEMA"). Funding from government agencies is subject to specific compliance requirements and review and audit by the grantor agencies. Such audits could result in request for reimbursement by the grantor agency for expenses disallowed under terms and conditions specified in the grant agreements. In the opinion of management, the net effect of any disallowance or adjustment resulting from these activities would not be material to NDMS's financial position.

8. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DEPARTURE

Inventory is not recorded in the financial statements. Accounting principles generally accepted in the United States of America require inventory to be recorded in the financial statements. The effects of not recording inventory in the financial statements have not been determined.

9. CONCENTRATION

For the year ended December 31, 2017, approximately 41% of total contributions and grants was from one donor.

10. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, subsequent events have been evaluated by NDSM through December 5, 2018, which was the date the financial statements were available for issuance, and concluded that no additional disclosures are required.