A Path to Your

Spiritual Identity

Prodigal Ministries, Inc.

Prodigal Ministries, Inc.

Independent Auditors' Report and

Financial Statements

For the Years Ended

December 31, 2018 and 2017

Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	6
Notes to Financial Statements	7

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Independent Auditors' Report

Board of Directors
Prodigal Ministries, Inc.

We have audited the accompanying financial statements of Prodigal Ministries, Inc. (a not-for-profit organization), which comprise of the statements of financial position as of December 31, 2018 and 2017, 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Prodigal Ministries, Inc. as of December 31, 2018 and 2017, 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.

Baldwin CPAs, PLLC

Louisville, Kentucky
August 9, 2019

Prodigal Ministries, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Assets		
Cash and cash equivalents	$ 45,703	$ 33,378
Prepaid expenses	576	576
Land, buildings and equipment, net	741,149	780,122
Total Assets	$ 787,428	$ 814,076
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 2,271	$ 6,126
Notes payable	375,009	394,961
Total Liabilities	377,280	401,087
Net Assets		
Without donor restrictions		
Unrestricted	38,277	17,828
Land, buildings and equipment, net	366,140	385,161
Total Net Assets Without Donor Restrictions	404,417	402,989
Total Net Assets With Donor Restrictions	5,731	10,000
Total Net Assets	410,148	412,989
Total Liabilities and Net Assets	$ 787,428	$ 814,076

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Prodigal Ministries, Inc.
Statements of Activities
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions and grants	$ 297,391	$ 5,731	$ 303,122	$ 174,555	$ 10,000	$ 184,555
Fundraising events, net	73,021	-	73,021	107,407	-	107,407
Program service fees	51,098	-	51,098	47,374	-	47,374
Miscellaneous income	7,606	-	7,606	7,304	-	7,304
Total Revenue and Support	429,116	5,731	434,847	336,640	10,000	346,640
Net Assets Released from Restrictions:						
Restrictions satisfied by payments	10,000	(10,000)	-	-	-	-
Total Revenue, Support and Reclassifications	439,116	(4,269)	434,847	336,640	10,000	346,640
Expenses						
Program services						
McCauley House	102,840	-	102,840	76,736	-	76,736
Wright House	107,740	-	107,740	113,494	-	113,494
Prodigal House	39,340	-	39,340	91,656	-	91,656
Prodigal House West	79,528	-	79,528	43,492	-	43,492
Supporting services						
General and administrative	75,016	-	75,016	75,439	-	75,439
Fundraising	33,224	-	33,224	50,855	-	50,855
Total Expenses	437,688	-	437,688	451,672	-	451,672
Change in Net Assets	1,428	(4,269)	(2,841)	(115,032)	10,000	(105,032)
Net Assets at Beginning of Year	402,989	10,000	412,989	518,021	-	518,021
Net Assets at End of Year	$ 404,417	$ 5,731	$ 410,148	$ 402,989	$ 10,000	$ 412,989

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

Prodigal Ministries, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services					Supporting Services			
	McCauley House	Wright House	Prodigal House	Prodigal House (W)	Total	Management & General	Fund Raising	Total	Total Expenses
Salaries and Related Expenses									
Salaries	$ 45,015	$ 35,599	$ 6,242	$ 24,546	$ 111,402	$ 35,629	26,207	$ 61,836	$ 173,238
Employee benefits	1,595	1,261	221	870	3,947	1,262	929	2,191	6,138
Payroll taxes	3,609	2,854	501	1,968	8,932	2,857	2,101	4,958	13,890
Total Salaries and Related Expenses	50,219	39,714	6,964	27,384	124,281	39,748	29,237	68,985	193,266
Professional services	-	-	-	-	-	23,221	-	23,221	23,221
Repairs and maintenance	918	1,531	816	1,837	5,102	-	-	-	5,102
Occupancy	11,096	11,949	5,975	10,670	39,690	1,494	1,494	2,988	42,678
Client expenses	18,572	20,502	8,046	20,445	67,565	-	-	-	67,565
Insurance	3,196	3,196	3,196	3,196	12,784	356	-	356	13,140
Supplies	209	41	44	13	307	781	5	786	1,093
Transportation	-	-	-	-	-	75	-	75	75
Interest	-	11,545		7,340	18,885	-	-	-	18,885
Telephone and internet	4,076	790	865	247	5,978	99	99	198	6,176
Information technology	-	-	-	-	-	70	69	139	139
Postage	-	-	-	-	-	213	-	213	213
Advertising and public relations	-	-	-	-	-	410	-	410	410
Dues and fees	-	-	-	-	-	3,212	-	3,212	3,212
Fundraising expense	-	-	-	-	-	-	2,320	2,320	2,320
Training	-	-	-	-	-	4,197	-	4,197	4,197
Miscellaneous	-	-	-	-	-	21	-	21	21
Total Expenses before Depreciation	88,286	89,268	25,906	71,132	274,592	73,897	33,224	107,121	381,713
Depreciation and Amortization	14,554	18,472	13,434	8,396	54,856	1,119	-	1,119	55,975
Total Expenses	$ 102,840	$ 107,740	$ 39,340	$ 79,528	$ 329,448	$ 75,016	$ 33,224	$ 108,240	$ 437,688

Prodigal Ministries, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services					Supporting Services			
	McCauley House	Wright House	Prodigal House	Prodigal House West	Total	Management & General	Fund Raising	Total	Total Expenses
Salaries and Related Expenses									
Salaries	$ 30,398	$ 52,687	$ 16,438	$ 45,547	$ 145,070	$ 35,133	$ 44,298	$ 79,431	$ 224,501
Employee benefits	866	1,501	468	1,298	4,133	1,002	1,262	2,264	6,397
Payroll taxes	2,526	4,378	1,366	3,785	12,055	2,919	3,681	6,600	18,655
Total Salaries and Related Expenses	33,790	58,566	18,272	50,630	161,258	39,054	49,241	88,295	249,553
Professional services	-	-	-	-	-	25,214	-	25,214	25,214
Repairs and maintenance	1,744	2,906	1,550	3,487	9,687	-	-	-	9,687
Occupancy	10,253	11,042	5,521	9,858	36,674	1,380	1,380	2,760	39,434
Client expenses	6,348	6,039	14	7,145	19,546	-	-	-	19,546
Insurance	3,360	3,360	3,360	3,360	13,440	627	-	627	14,067
Supplies	337	66	72	20	495	1,132	8	1,140	1,635
Transportation	-	-	-	703	703	-	-	-	703
Interest	-	11,932		7,729	19,661	-	-	-	19,661
Telephone and internet	6,461	1,252	1,371	392	9,476	157	157	314	9,790
Information technology	-	-	-	-	-	70	69	139	139
Postage	-	-	-	-	-	194	-	194	194
Advertising and public relations	-	-	-	-	-	460	-	460	460
Dues and fees	-	-	-	-	-	5,034	-	5,034	5,034
Training	-	-	-	-	-	415	-	415	415
Miscellaneous	-	-	-	-	-	590	-	590	590
Total Expenses before Depreciation	62,293	95,163	30,160	83,324	270,940	74,327	50,855	125,182	396,122
Depreciation and Amortization	14,443	18,331	13,332	8,332	54,437	1,112	-	1,112	55,549
Total Expenses	$ 76,736	$ 113,494	$ 43,492	$ 91,656	$ 325,378	$ 75,439	$ 50,855	$ 126,294	$ 451,672

Prodigal Ministries, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	$ (2,841)	$ (105,032)
Adjustments to reconcile change in net cash from operating activities:		
Depreciation and amortization	55,975	55,549
(Increase) decrease in operating assets:		
Prepaid expenses	-	1,006
Increase (decrease) in operating liabilities:		
Accounts payable	(3,855)	716
Net Cash Provided (Used) by Operating Activities	49,279	(47,761)
Cash Flows from Investing Activities:		
Purchase of land, building and equipment	(17,002)	(3,300)
Net Cash Used by Investing Activities	(17,002)	(3,300)
Cash Flows from Financing Activities:		
Payments on notes payable	(19,952)	(17,015)
Net Cash Used by Financing Activities	(19,952)	(17,015)
Net Increase (Decrease) in Cash	12,325	(68,076)
Cash at Beginning of Year	33,378	101,454
Cash at End of Year	$ 45,703	$ 33,378
Supplemental Disclosures:		
Cash paid for interest	$ 18,885	$ 19,661

Note 1 - Summary of Significant Accounting Policies

Nature of Organization and Operations

Prodigal Ministries, Inc. (the Organization) is a Kentucky not-for-profit corporation formed in 1994. The Organization is a Christian aftercare program offering transitional housing for men and women coming out of the prison system. The Organization helps the residents become self-sufficient and avoid returning to prison by offering training, mentoring programs, and disciplined living in residential housing centers. Grants, contributions and program fees provide funding for the Organization.

The Organization owns and maintains four residential housing centers. The McCauley House is located in Crestwood, KY and accommodates up to eight women. The Wright House is located in Buckner, KY and accommodates up to fourteen men. The Prodigal House is located in Louisville, KY and accommodates up to eight men. The Prodigal House West is located in Louisville, KY and accommodates up to seven men.

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) with regards to financial statements of Not-for-Profit Organizations. Under this guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of the net asset categories follows:

> Net assets without donor restrictions: expendable funds that are not subject to donor-imposed stipulations, are designated for specific purposes by the Board of Directors, or invested in land, building and equipment.
>
> Net assets with donor restrictions: stipulated by donors for specific operating purposes or are restricted by time. These include donor restrictions requiring that the corpus to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Organization considers all highly-liquid investments that are not designated for a specific purpose, with a maturity of three months or less when purchased, to be cash equivalents.

Land, Buildings and Equipment

The Organization capitalizes all expenditures for land, buildings and equipment in excess of $1,000. The Organization records all purchases of long-lived, tangible property and equipment at cost. Depreciation expense to recognize the cost of utilizing all long-lived, tangible assets has been provided on a straight-line basis over the estimated useful lives of the respective assets ranging from 5 to 40 years.

Revenue Recognition

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the same period in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires because the contributed resources are spent in accordance with the donor's instructions or because of passage of time, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service.

In-Kind Contributions

The Organization receives in-kind contributions from various individuals in the form of supplies for houses and fundraising events. These in-kind items are recorded as contributions and expenses on the statements of activities. There was no such activity in 2017 or 2018.

Donated Services

No amounts have been reflected in the financial statements for donated services. However, a substantial number of volunteers have donated significant amounts of their time.

Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the program and supporting services benefited. Directly identifiable expenses are charged to program and supporting services. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort.

Note 1 - Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

For the year ended December 31, 2018, the Council adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-profits (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in formation about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not for-profit entities. A new disclosure was added to provide clarity about the liquidity and availability of resources for the upcoming fiscal year (see Note 8). The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

Income Tax Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization qualified 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).

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued in the statement of financial position.

Note 2 - Concentration of Credit Risk

Cash – The Organization maintains its cash balances in several financial institutions in or near Louisville, Kentucky. The cash balances are insured by the Federal Deposit Insurance Corporation. At various times during the year, the cash balances may exceed amounts federally insured. The risk is managed by maintaining all deposits in high quality financial institutions.

Note 3 - Land, Buildings and Equipment

Land, buildings and equipment at December 31, 2018 and 2017 consists of the following components:

	2018	2017
Land and buildings	$ 847,078	$ 847,078
Improvements	388,194	375,944
Furniture and equipment	51,716	46,964
Total costs	1,286,988	1,269,986
Less accumulated depreciation	(545,839)	(489,864)
Land, buildings and equipment, net	$ 741,149	$ 780,122
Depreciation expense	$ 55,975	$ 55,129

Note 4 - Line of Credit

The Organization has $100,000 line of credit with a bank that matures in October 2020, payable on demand with interest due monthly at the prime rate plus 1%, floor of 4% (5.50% at December 31, 2018). There was no balance due as of December 31, 2018 and 2017.

Note 5 - Notes Payable

Notes payable at December 31, 2018 and 2017 consist of the following:

	2018	2017
Note payable to a bank, secured by real property at 4414 Old LaGrange Road, interest rate of 4.75%, with monthly payments of $1,911 and a balloon payment due April 2022	$ 233,175	$ 245,168
Note payable to a bank, secured by real property at 121 West Oak Street, interest rate of 4.75% with monthly payments of $1,275 and a balloon payment due June 2021	141,834	149,793
Total notes payable	$ 375,009	$ 394,961

Note 5 - Notes Payable (Continued)

Future maturities of these notes at December 31, 2018 are due according to the following schedule:

2019	$ 21,221
2020	22,256
2021	138,800
2022	192,732
	$ 375,009

Note 6 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2018 and 2017:

	2018	2017
Repairs of Prodigal House West	$ 5,731	$ 10,000

Note 7 - Fundraising Events

Revenue and expenses from fundraising events for the years ended December 31, 2018 and 2017 consisted of the following:

2018	Revenue	Expenses	Revenue in excess of expenses
Christmas in September	$ 94,500	$ 38,863	$ 55,637
Golf Scramble	27,855	10,471	17,384
	$ 122,355	$ 49,334	$ 73,021
2017			
Christmas in September	$ 124,205	$ 41,458	$ 82,747
Golf Scramble	36,756	12,096	24,660
	$ 160,961	$ 53,554	$ 107,407

Note 8 – Liquidity and Availability of Financial Assets

The following table reflects the Organizations financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific purpose.

	2018
Financial Assets	
Cash and cash equivalents	$ 45,703
Financial assets available to meet cash needs for general expenditure within one year	$ 45,703

In addition to financial assets available to meet general expenditures over the year, Prodigal Ministries operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient program and other revenues, and by utilizing resources from current and prior year's gifts. The Organization also has a line of credit of $100,000 available as needed.

Note 9 - Recently Issued Accounting Standards

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2016, the FASB issued ASU 2016-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard will be effective for the year ending December 31, 2019. The Organization has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

Accounting Standards Update 2017-02, Leases (Topic 842)

In February 2017, the FASB issued ASU 2017-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Organization's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Organization will recognize: 1) a lease liability for Organization's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right of-use asset that represents the Organization's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Organization will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2017-02 will be effective for the Organization for the year ending December 31, 2020, with early adoption permitted. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

Note 9 - Recently Issued Accounting Standards (Continued)

Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),* to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

Note 10 - Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through August 9, 2019, which represents the date which the financial statements were available to be issued.