

PEOPLE RESPONDING
IN SOCIAL MINISTRY

REPORT ON AUDIT

JANUARY 31, 2007



LETHERT, SKWIRA, SCHULTZ & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS ♦ BUSINESS CONSULTANTS

Helping Business Conduct Business Since 1918

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
People Responding In Social Ministry

We have audited the accompanying statement of financial position of **People Responding In Social Ministry** (a Minnesota nonprofit organization) as of **January 31, 2007** and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 audits provide 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 **People Responding In Social Ministry** as of **January 31, 2007** and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 29, 2007

Lethert, Skwira, Schultz & Co. LLP
LETHERT, SKWIRA, SCHULTZ & Co. LLP

PEOPLE RESPONDING IN SOCIAL MINISTRY

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Statement of Financial Position

January 31, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
<u>Current Assets</u>		
Cash	\$ 290,902	\$ 112,603
Accounts receivable (Note 4)	72,341	79,391
Auto shop receivables, net of allowance for doubtful accounts, 2007, \$1,500 and 2006, \$2,300	3,724	4,428
Ways to work receivable, net of allowance for doubtful accounts, 2007, \$14,000 and 2006, \$9,500	95,349	55,407
PFC loans receivable net of allowance for doubtful accounts, 2007, \$5,500 and 2006, \$11,946	19,584	-
Prepaid expenses	18,318	16,059
Inventory (Note 6)	<u>176,280</u>	<u>134,755</u>
Total Current Assets	676,498	402,643
<u>Property and Equipment (Note 7)</u>		
Furniture and equipment	78,919	60,512
Vehicles	205,032	150,365
Leasehold improvements	<u>245,848</u>	<u>245,848</u>
Total	529,799	456,725
Less: Accumulated depreciation	<u>246,724</u>	<u>165,622</u>
Total Property and Equipment	283,075	291,103
<u>Other Assets</u>		
Deposits	<u>7,623</u>	<u>15,247</u>
TOTAL ASSETS	\$ <u>967,196</u>	\$ <u>708,993</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Current maturities of long-term debt (Note 9)	9,694	8,048
Accounts payable	29,543	33,615
Accrued wages	7,581	7,093
Accrued expenses	<u>8,215</u>	<u>10,584</u>
Total Current Liabilities	55,033	59,340
<u>Long-Term Debt (Note 9)</u>		
Notes payable	253,004	257,964
Less: Current maturities	<u>9,694</u>	<u>8,048</u>
Total Long-Term Debt	243,310	249,916
<u>Other Liabilities</u>		
United Way car funding (Note 8)	33,400	-
<u>Net Assets</u>		
Unrestricted	223,817	291,681
Temporarily restricted (Note 11)	<u>411,636</u>	<u>108,056</u>
Total Net Assets	635,453	399,737
TOTAL LIABILITIES AND NET ASSETS	\$ <u>967,196</u>	\$ <u>708,993</u>

The accompanying notes are an integral part of this financial statement.

Statement of Activities

Years Ended January 31, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Support						
Member churches	\$ 77,685	\$ 7,426	\$ 85,111	\$ 78,761	\$ 5,247	\$ 84,008
Other churches	5,557	1,260	6,817	5,994	300	6,294
Corporations and foundations	255,394	278,812	534,206	332,513	116,207	448,720
Organizations	12,707	71,603	84,310	67,112	1,433	68,545
Individuals	118,461	13,577	132,038	115,052	8,816	123,868
Ride donations	-	25,144	25,144	-	27,008	27,008
Other donations	4,752	6,345	11,097	2,300	7,619	9,919
In kind contributions (Note 12)	29,250	1,319,624	1,348,874	78,007	1,025,639	1,103,646
Special events	67,355	-	67,355	58,727	-	58,727
Family car contributions	46,687	20,042	66,729	-	4,810	4,810
Grants from Governmental Agencies						
Metropolitan council grants	-	200,349	200,349	-	131,948	131,948
Municipal grants	21,025	4,750	25,775	24,925	-	24,925
FEMA grants	-	21,500	21,500	-	23,000	23,000
Revenue						
Thrift shop revenue	9,486	-	9,486	-	7,659	7,659
Auto shop revenue	109,525	-	109,525	41,010	224	41,234
Miscellaneous	8,347	100	8,447	15	2,600	2,615
Interest	1,769	-	1,769	561	-	561
Loss on disposal of assets	(849)	-	(849)	-	-	-
Total Support and Revenue	767,151	1,970,532	2,737,683	804,977	1,362,510	2,167,487
Net Assets Released From Restrictions						
Restrictions satisfied by payments	1,666,952	(1,666,952)	-	1,400,069	(1,400,069)	-
Expenses						
Program services	2,356,111	-	2,356,111	1,961,470	-	1,961,470
Management and general	70,554	-	70,554	61,488	-	61,488
Fund raising	75,302	-	75,302	90,846	-	90,846
Total Expenses	2,501,967	-	2,501,967	2,113,804	-	2,113,804
Increase (Decrease) in Net Assets	(67,864)	303,580	235,716	91,242	(37,559)	53,683
Net Assets, Beginning of Year	291,681	108,056	399,737	200,439	145,615	346,054
Net Assets, End of Year	\$ 223,817	\$ 411,636	\$ 635,453	\$ 291,681	\$ 108,056	\$ 399,737

The accompanying notes are an integral part of this financial statement.

PEOPLE RESPONDING IN SOCIAL MINISTRY

Statement of Functional Expenses

Years Ended January 31, 2007 and 2006

	2007				2006			
	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 463,809	\$ 17,196	\$ 24,784	\$ 505,789	\$ 400,611	\$ 16,577	\$ 43,284	\$ 460,472
Payroll taxes	34,713	1,287	1,855	37,855	29,737	1,230	3,213	34,180
Employee benefits	32,295	1,197	1,726	35,218	25,817	1,069	2,789	29,675
Total Personnel Expenses	530,817	19,680	28,365	578,862	456,165	18,876	49,286	524,327
Donated toys and other	115,310	-	-	115,310	94,811	-	-	94,811
Donated food	799,713	-	-	799,713	605,904	-	-	605,904
Donated clothing and household	322,772	-	-	322,772	313,122	-	-	313,122
Food purchases	20,583	-	-	20,583	38,228	-	-	38,228
Toys and school supplies	4,000	-	-	4,000	330	-	-	330
Specific assistance	17,865	-	-	17,865	27,886	-	-	27,886
Supplies	5,506	204	293	6,003	7,355	310	729	8,394
Telephone	11,141	269	208	11,618	11,137	448	255	11,840
Postage and shipping	1,884	54	3,507	5,445	2,225	106	6,567	8,898
Occupancy costs	118,204	3,480	2,610	124,294	90,250	4,556	2,133	96,939
Printing and copying	1,983	6,737	7,398	16,118	3,310	8,826	5,659	17,795
Insurance	10,684	315	236	11,235	9,751	493	230	10,474
Professional services	40,244	28,782	8,494	77,520	75,716	23,642	2,206	101,564
Contract services	1,916	244	-	2,160	-	145	329	474
Equipment rental and repair	4,818	179	257	5,254	4,528	188	489	5,205
Transportation expenses	93,662	-	-	93,662	70,438	-	-	70,438
Fund raising	-	-	18,515	18,515	-	-	17,852	17,852
Membership dues	6,126	300	969	7,395	4,543	35	1,310	5,888
Miscellaneous	10,786	7,805	1,067	19,658	12,194	2,324	273	14,791
Interest	14,415	308	216	14,939	7,914	230	109	8,253
Family car and Ways to work expenses	78,912	-	-	78,912	25,423	-	-	25,423
Auto shop expenses	61,926	-	-	61,926	28,090	-	-	28,090
Bad debts	6,957	-	-	6,957	20,789	-	-	20,789
Total Expenses Before Depreciation	2,280,224	68,357	72,135	2,420,716	1,910,109	60,179	87,427	2,057,715
Depreciation	75,887	2,197	3,167	81,251	51,361	1,309	3,419	56,089
Total Expenses	\$ 2,356,111	\$ 70,554	\$ 75,302	\$ 2,501,967	\$ 1,961,470	\$ 61,488	\$ 90,846	\$ 2,113,804

The accompanying notes are an integral part of this financial statement.

Statement of Cash Flows

Years Ended January 31, 2007 and 2006

<u>Cash Flows From Operating Activities</u>	<u>2007</u>	<u>2006</u>
Increase in net assets	\$ 235,716	\$ 53,683
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	81,251	56,089
Loss on disposal of assets	849	-
In kind contribution of property and equipment	(11,000)	(22,653)
Increase (decrease) in cash flows from:		
Accounts receivable	7,050	(59,206)
Auto shop receivables	704	(4,428)
Ways to work receivable	(39,942)	(55,407)
Deposits	(11,960)	(15,247)
Prepaid expenses	(2,259)	(5,096)
Inventory	(41,525)	6,695
Accounts payable	(4,072)	26,497
Accrued wages	488	1,705
Accrued expenses	(2,369)	2,208
United Way car funding	33,400	-
Net Cash Provided (Used) by Operating Activities	246,331	(15,160)
<u>Cash Flows Used by Investing Activities</u>		
Purchase of property and equipment	(63,072)	(264,122)
<u>Cash Flows From Financing Activities</u>		
Repayment of long-term debt	(4,960)	-
Proceeds from long-term debt	-	257,964
Net Cash Provided (Used) by Financing Activities	(4,960)	257,964
Net Increase (Decrease) in Cash	178,299	(21,318)
Cash, Beginning of Year	112,603	133,921
Cash, End of Year	\$ 290,902	\$ 112,603

Supplemental Disclosures of Cash Flows Information

During the years ended January 31, 2007 and 2006, the Organization made interest payments of \$16,648 and \$8,253, respectively.

	<u>2007</u>	<u>2006</u>
Receipt of donated property and equipment (Note 7)	\$ 11,000	\$ 22,653

The accompanying notes are an integral part of this financial statement.

Notes to Financial Statements

January 31, 2007 and 2006

NOTE 1 NATURE OF ORGANIZATION

People Responding in Social Ministry (the Organization) is incorporated under the laws of the state of Minnesota as a nonprofit corporation. The Organization offers support-based programming with emergency services supported by communities of faith, schools, local governments, businesses, community groups, foundations, and individuals.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES****Financial Statement Presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting and are presented in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". SFAS No. 117 requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Assets accumulated and resources received and expended by the Organization are either unrestricted as to use or purpose or restricted by the donor for a particular purpose. Permanently restricted net assets account for donations restricted for specific purposes whereby the restriction does not expire. Temporarily restricted net assets represents contributions to the Organization whose use is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled by expending the funds for their restricted purpose. As of January 31, 2007 and 2006, the Organization had not received any permanently restricted gifts.

The Organization has chosen to report contributions with donor imposed restrictions that are met in the same reporting period they are received as temporarily restricted contributions with an accompanying reclassification for net assets released from restrictions.

Notes to Financial Statements

January 31, 2007 and 2006

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)****Accounting 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 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 with maturities of three months or less to be cash equivalents.

Accounts Receivable

The Organization utilizes the reserve method to account for bad debts. The allowance is calculated based on the best estimate of management. Accounts and other receivables are presented net of allowances for bad debts of \$21,546 and \$39,892 for the years ended January 31, 2007 and 2006, respectively. Accounts receivable are due upon invoice. Loan receivable payments are due every 30 days from the date of the loan. Accounts are written-off at the discretion of management after all efforts to collect have been exhausted. For the years ended January 31, 2007 and 2006, bad debt expense was \$6,957 and \$20,789, respectively.

Inventory

Inventory consists of food, clothing, toys, autos, and other items donated by various contributors and is reflected in the financial statements at \$2 per pound for food, \$4 per pound for clothing, a range of \$4-\$25 dollars for toys depending on size, and estimated fair market value for autos.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on the straight-line method over an estimated useful life of 3 to 5 years. Contributed items are recorded at fair market value at the date of the contribution. Major renewals are capitalized.

Notes to Financial Statements

January 31, 2007 and 2006

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)****Donated Materials and Services**

Donated materials are reflected as contributions in the financial statements at their estimated fair values at the date of receipt. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

For the years ended January 31, 2007 and 2006, the Organization received no contributed services meeting the requirements for recognition in the financial statements. Total volunteer service hours not meeting the requirements for recognition in the financial statements were 14,323 and 15,730 for the years ended January 31, 2007 and 2006, respectively.

Income Taxes

The Organization was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation. Accordingly, no provision for income taxes has been provided for in these financial statements.

Functional Expenses

The expenses included in the accompanying statement of functional expenses were allocated to, or specifically identified with, the various functions as follows:

Salaries and related expenses - based on job descriptions and management's estimate of where time was expended.

Other expenses - based on the best estimates of management.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$2,160 and \$474 for the years ended January 31, 2007 and 2006, respectively.

Notes to Financial Statements

January 31, 2007 and 2006

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)****Government Grants and Contracts**

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown in the restricted net assets. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Unemployment Compensation

The Organization has elected to self-insure unemployment tax claims. Any amounts incurred will be recorded as expense when payable.

**NOTE 3 CONCENTRATIONS OF CREDIT RISK ARISING FROM
CASH DEPOSITED IN EXCESS OF INSURED LIMITS**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization maintains its cash balances at two financial institutions. These institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

At January 31, 2007 and 2006, amounts in excess of FDIC were approximately \$158,300 and \$0, respectively.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable as of January 31, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Grants	\$ 29,559	\$ 51,629
Matching gifts	2,800	850
Services billings to third parties	26,537	19,146
Northwest Hennepin Human Services Council	5,196	4,961
Families Moving Forward	-	(143)
Other	<u>8,249</u>	<u>2,948</u>
Total	\$ <u>72,341</u>	\$ <u>79,391</u>

Notes to Financial Statements

January 31, 2007 and 2006

NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)

The receivables from Northwest Hennepin Human Services Council (NWHHSC) are for reimbursement of disbursements made under an emergency financial assistance loan program in which the Organization performs the case management and administrative activities in providing emergency loans to clients. The Organization is reimbursed for such disbursements by NWHHSC. The total disbursements made by the Organization for the years ended January 31, 2007 and 2006, were \$101,751 and \$116,137, respectively. The families served by this program in the years ended January 31, 2007 and 2006, were 153 and 141, respectively.

NOTE 5 MISCELLANEOUS RECEIVABLE

Miscellaneous receivable as of January 31, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Clients' emergency assistance loans	\$ 546	\$ 16,146
Reserve for uncollectible accounts	<u>(546)</u>	<u>(16,146)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Organization utilizes its own resources to provide emergency loans to individual clients. Such funds are provided to clients in the form of a loan. All such loans outstanding are fully reserved until fully collected for the years ended January 31, 2007 and 2006.

NOTE 6 INVENTORY

Inventory as of January 31, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Food	\$ 62,092	\$ 27,727
Toys and other	39,894	30,860
Clothing and household items	60,334	70,151
Autos	<u>13,960</u>	<u>6,017</u>
Total	<u>\$ 176,280</u>	<u>\$ 134,755</u>

Notes to Financial Statements

January 31, 2007 and 2006

NOTE 7 FIXED ASSETS

During the years ended January 31, 2007 and 2006, the Organization received in kind equipment and leasehold improvement contributions. The estimated values of the donations were recorded as in kind contributions of \$11,000 and \$23,653 in the years ended January 31, 2007 and 2006, respectively.

NOTE 8 UNITED WAY CONTRACT FUNDING

During the year ended January 31, 2007, the Organization received \$35,000 from United Way to help fund their vehicle programs. The Organization is required to repay this advance in \$100 increments for every vehicle sold to a client.

NOTE 9 LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2007</u>	<u>2006</u>
Note payable to Ways to Work bearing interest at 4.00% with monthly interest only payments. \$60,000 of the principal is due in 2009 and the remaining principal is due in 2010. Unsecured.	\$ 120,000	\$ 120,000
Note payable to Westpark Center bearing interest at prime (8.25% at January 31, 2007) with monthly installments of interest only until July, 2006. Starting July, 2006, monthly installments include principal of \$1,150 plus applicable interest. Unsecured.	<u>133,004</u>	<u>137,964</u>
Total	253,004	257,964
Less: Current maturities	<u>9,694</u>	<u>8,048</u>
Total Long-Term Debt	\$ <u>243,310</u>	\$ <u>249,916</u>

Notes to Financial Statements

January 31, 2007 and 2006

NOTE 9 LONG-TERM DEBT (CONTINUED)

The aggregate annual maturities of long-term debt at January 31, 2007, are as follows:

<u>Year Ended January 31,</u>	<u>Amount</u>
2008	\$ 9,694
2009	10,525
2010	71,427
2011	72,406
2012	13,469
After 2012	<u>75,483</u>
	<u>\$ 253,004</u>

NOTE 10 LINE OF CREDIT

At January 31, 2007, the Organization has a revolving credit line for \$25,000. The credit line is secured by all business assets.

At January 31, 2007 and 2006, no amounts were outstanding under this agreement.

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2007</u>	<u>2006</u>
Food, toys, clothing, and other	\$ 100,270	\$ 67,269
PRISM Express vehicles	106,983	-
Project Family Car	177,066	12,598
Other	<u>27,317</u>	<u>28,189</u>
Total Temporarily Restricted Net Assets	<u>\$ 411,636</u>	<u>\$ 108,056</u>

Notes to Financial Statements

January 31, 2007 and 2006

NOTE 12 IN KIND CONTRIBUTIONS

The Organization records in kind contributions of property and equipment at fair market value at the date of the donation, food at \$4 per pound, clothing and household items at \$2 per pound, toys are valued at various amounts depending on size, and vehicles are valued at \$1,000 per vehicle. In kind contributions are reflected as support when received and as expenses when distributed. The following were received for the years ended January 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Property and equipment	\$ 11,000	\$ 22,653
Food	834,077	603,704
Clothing and household items	315,994	306,178
Toys and other	145,803	147,111
Vehicles	<u>42,000</u>	<u>24,000</u>
Total	<u>\$ 1,348,874</u>	<u>\$ 1,103,646</u>

NOTE 13 OPERATING LEASES

At January 31, 2007, the Company was obligated under a long-term lease for office space, expiring May 31, 2010. The lease contains a 120-day termination clause and calls for monthly rental payments of \$5,022 plus the Organization's share of operating expenses for the term of the lease.

Rent expense under this lease for the years ended January 31, 2007 and 2006, was \$103,038 and \$72,446, respectively.

The following is a schedule of future minimum lease payments under operating leases:

<u>Year Ended January 31,</u>	<u>Amount</u>
2008	\$ 60,259
2009	60,259
2010	60,259
2011	<u>20,086</u>
Total Minimum Future Lease Payments	<u>\$ 200,863</u>

NOTE 14 SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization provides services within the Twin Cities area. The amounts due for services provided are from third-party payers, all of which are local residents.

Notes to Financial Statements

January 31, 2007 and 2006

NOTE 15 SUBSEQUENT EVENT

On February 1, 2007, PRISM merged with another Organization called Wheels to Work. Wheels to Work is another 501(c)(3) organization that gives away vehicles free of charge to its clients. On this date, PRISM recorded an additional \$48,922 of assets, \$6,487 of liabilities, and \$42,435 contribution from the merging of the Organizations.

NOTE 16 RECLASSIFICATIONS

Certain amounts reported for 2006 have been reclassified to conform with 2007 presentation. This reclassification had no effect on reported changes in net assets.