

OUR SAVIOUR'S OUTREACH MINISTRIES

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

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Callahan, Johnston & Associates, LLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Our Saviour's Outreach Ministries
Minneapolis, Minnesota

We have audited the statements of financial position of Our Saviour's Outreach Ministries as of March 31, 2008, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year ended March 31, 2008. 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 audit. The 2007 information is presented for comparative purposes and has been summarized from the 2007 financial statements audited by us and upon which we issued an unqualified opinion in our report dated July 2, 2007.

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 Our Saviour's Outreach Ministries as of March 31, 2008, and the results of its operations and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Callahan, Johnston & Associates, LLC

CALLAHAN, JOHNSTON & ASSOCIATES, LLC
Minneapolis, Minnesota
June 16, 2008

OUR SAVIOUR'S OUTREACH MINISTRIES

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2008 AND 2007

	March 31, 2008			Total	March 31, 2007 Summarized
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
<u>ASSETS</u>					
Current assets:					
Cash and savings	\$ 1,373	\$ 21,100	\$ -	\$ 22,473	\$ 20,585
Grants and pledges receivable	53,099	215,000	-	268,099	87,974
Prepaid expenses	7,782	-	-	7,782	13,546
Total current assets	<u>62,254</u>	<u>236,100</u>	<u>-</u>	<u>298,354</u>	<u>122,105</u>
Property and equipment:					
Transitional housing	210,218	-	-	210,218	210,218
Vehicles	22,175	-	-	22,175	-
Furniture and equipment	23,687	-	-	23,687	22,238
	256,080	-	-	256,080	232,456
Less accumulated depreciation	<u>38,592</u>	<u>-</u>	<u>-</u>	<u>38,592</u>	<u>30,411</u>
	<u>217,488</u>	<u>-</u>	<u>-</u>	<u>217,488</u>	<u>202,045</u>
Total assets	<u>\$ 279,742</u>	<u>\$ 236,100</u>	<u>\$ -</u>	<u>\$ 515,842</u>	<u>\$ 324,150</u>

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

OUR SAVIOUR'S OUTREACH MINISTRIES

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2008 AND 2007

	March 31, 2008			Total	March 31, 2007 Summarized						
	Unrestricted	Temporarily Restricted	Permanently Restricted								
<u>LIABILITIES AND NET ASSETS</u>											
Current liabilities:											
Accounts payable	\$ 24,468	\$ -	\$ -	\$ 24,468	\$ 9,820						
Accrued expenses:											
Payroll and related	19,472	-	-	19,472	13,107						
Participation fees	2,400	-	-	2,400	2,400						
Note payable - bank	3,797	-	-	3,797	-						
Current portion of notes payable - transitional housing	4,115	-	-	4,115	4,115						
Total current liabilities	54,252	-	-	54,252	29,442						
Long-term liabilities:											
Notes payable - transitional housing	54,526	-	-	54,526	58,640						
Note payable - bank	18,077	-	-	18,077	-						
Notes and advances - Our Saviour's Church	136,002	-	-	136,002	136,002						
Total long-term liabilities	208,605	-	-	208,605	194,642						
Total liabilities	262,857	-	-	262,857	224,084						
Net assets	16,885	236,100	-	252,985	100,066						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Total liabilities and net assets</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 279,742</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 236,100</td> <td style="text-align: right; border-bottom: 3px double black;">\$ -</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 515,842</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 324,150</td> </tr> </table>						Total liabilities and net assets	\$ 279,742	\$ 236,100	\$ -	\$ 515,842	\$ 324,150
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The accompanying notes are an integral part of these financial statements.

OUR SAVIOUR'S OUTREACH MINISTRIES

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED MARCH 31, 2008 AND 2007

	March 31, 2008			Total	March 31, 2007 Summarized
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue:					
Contributions	\$ 491,064	\$ 45,000	\$ -	\$ 536,064	\$ 433,787
Government grants	218,954	238,206	-	457,160	371,133
Rent income	20,329	-	-	20,329	15,351
Transitional housing debt forgiveness	4,114	-	-	4,114	14,404
Other income	3,540	-	-	3,540	6,900
Interest income	-	-	-	-	5
Gain on sale of house	-	-	-	-	2,731
Net assets released from restrictions	<u>113,746</u>	<u>(113,746)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>851,747</u>	<u>169,460</u>	<u>-</u>	<u>1,021,207</u>	<u>844,311</u>
Expenses:					
Program services	762,916	-	-	762,916	724,655
Management and general	60,451	-	-	60,451	59,429
Fundraising	<u>44,921</u>	<u>-</u>	<u>-</u>	<u>44,921</u>	<u>42,256</u>
Total expenses	<u>868,288</u>	<u>-</u>	<u>-</u>	<u>868,288</u>	<u>826,340</u>
Change in net assets	(16,541)	169,460	-	152,919	17,971
Net assets:					
Beginning of year, as restated	<u>33,426</u>	<u>66,640</u>	<u>-</u>	<u>100,066</u>	<u>82,095</u>
End of year	<u>\$ 16,885</u>	<u>\$ 236,100</u>	<u>\$ -</u>	<u>\$ 252,985</u>	<u>\$ 100,066</u>

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

OUR SAVIOUR'S OUTREACH MINISTRIES

STATEMENTS OF CASH FLOWS Increase (Decrease) In Cash and Cash Equivalents

YEARS ENDED MARCH 31, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		Summarized
Contributions and grants	\$ 836,968	\$ 756,600
Interest received	-	5
Interest paid	(148)	(10,630)
Program, administrative and fund raising services	(833,182)	(814,076)
Net cash flows from operating activities	3,638	(68,101)
Cash flows from investing activities:		
Purchase of fixed assets	(1,449)	(782)
Proceeds from sale of transitional house	-	157,604
Net cash flows from investing activities	(1,499)	156,822
Cash flows from financing activities:		
Repayments on notes payable	(301)	(100,000)
Operating advances - Our Saviors' Church	-	2,166
Net cash flows from financing activities	(301)	(97,834)
Net change in cash and cash equivalents	1,888	(9,113)
Cash and cash equivalents:		
Beginning of year	20,585	29,698
End of year	\$ 22,473	\$ 20,585
Reconciliation of change in net assets to net cash from operating activities:		
Change in net assets	\$ 152,919	\$ 17,971
Depreciation	8,181	10,252
Transitional housing debt forgiveness	(4,114)	(14,404)
Grants and pledges receivable	(180,125)	(73,302)
Prepaid expenses	5,764	(9,956)
Accounts payable	14,648	15
Accrued expenses	6,365	1,323
Net cash from operating activities	\$ 3,638	\$ (68,101)

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

OUR SAVIOUR'S OUTREACH MINISTRIES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

1. Summary of Significant Accounting Policies and Significant Other Information

Organization

Our Saviour's Outreach Ministries (OSOM) is a non-profit organization incorporated under the laws of the State of Minnesota on December 1, 2004. OSOM was formed to contain programs that grew out of the outreach services of Our Saviour's Lutheran Church. The primary activities of OSOM are:

English Learning Center (ELC)

ELC provides basic instruction in English and math for immigrants and refugees new to this community. Computer classes and citizenship classes are also made available to students enrolled in the program.

Our Saviour's Housing (OSH)

OSH provides emergency shelter and transitional housing for people who are experiencing homelessness. Supportive services are also made available to residents who participate in these programs.

Basis of Presentation

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. 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 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.

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OUR SAVIOUR'S OUTREACH MINISTRIES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

1. Summary of Significant Accounting Policies and Significant Other Information (Continued)

Revenue Recognition

Contributions are recorded as received or unconditionally pledged. All contributions are available for unrestricted use unless specifically restricted by the donor.

Contributions of donated noncash assets are recorded at their fair values in the period received. 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.

Concentrations, Risks and Uncertainties

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants and Pledges Receivable

Management believes all grants and pledges are collectible and accordingly has not recorded an allowance for doubtful accounts. While the ultimate loss may differ, management believes that any loss will not have a material impact on the Organization's financial position. Due to uncertainties in collection process, however, it is reasonable that management's estimate of the outcome may change during the next year. That amount cannot be estimated.

All grants and pledges receivable are due within one year.

Two grants receivable from the City of Minneapolis aggregating \$215,000 accounted for 80% of the grants and pledges receivable at March 31, 2008. One grant receivable from the City of Minneapolis for \$65,000 accounted for 74% of the grants and pledges receivable at March 31, 2007.

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OUR SAVIOUR'S OUTREACH MINISTRIES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

1. Summary of Significant Accounting Policies and Significant Other Information (Continued)

Concentrations, Risks and Uncertainties (Continued)

Concentration of Risk

In 2008, fifteen percent (15%) of OSOM's revenues were provided through grants from the Minneapolis Public School District.

From inception to March 31, 2008, OSOM has depended on Our Saviour's Lutheran Church (OSLC) for support. OSOM was indebted to OSLC for \$136,002 at March 31, 2008 and March 31, 2007.

Income Taxes

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

Property and Equipment

OSOM's policy is to capitalize fixed asset additions greater than \$500. Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments. A summary of property and equipment is as follows:

	March 31, <u>2008</u>	March 31, <u>2007</u>	<u>Useful Lives</u>
Transitional housing	\$ 210,218	\$ 210,218	40
Vehicles	22,175	-	10
Furniture and equipment	<u>23,687</u>	<u>22,238</u>	3 to 7
	<u>\$ 256,080</u>	<u>\$ 232,456</u>	

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OUR SAVIOUR'S OUTREACH MINISTRIES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

1. Summary of Significant Accounting Policies and Significant Other Information (Continued)

Cash Equivalents

For purposes of the statement of cash flows, the OSOM considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At March 31, 2008 and 2007, OSOM had no cash equivalents.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of revenue, expenses and changes in fund balance. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Donated Goods and Services

The programs of Our Saviour's Outreach Ministries are enriched by the time and talents of many dedicated community volunteers. Two of OSOM's program areas would be substantially diminished or nonexistent without volunteer contributions:

The English Learning Center programs are taught entirely by trained volunteer instructors. In fiscal year 2008, 106 adult volunteer instructors contributed 3,606 hours of their time teaching in the OSOM's classrooms.

The Emergency Shelter at Our Saviour's Housing is served by a wide variety of community volunteer groups who purchase, prepare and serve the evening meal to shelter residents each night of the year. These groups vary widely in their size and composition; sometimes several adults are responsible for the meal and sometimes the groups consist of adults and youth. Each group prepares food for a minimum of 40 persons each night. Therefore, this donation of volunteer time, as well as food is substantial to OSOM.

No basis exists for valuing these services and the value of these services and goods currently are not reflected in the accompanying financial statements. OSOM is working on methods of valuing these donated goods and services and hopes to be able to record their value in future financial statements.

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OUR SAVIOUR'S OUTREACH MINISTRIES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

2. Restatement/Restrictions on Net Assets

At March 31, 2007, a \$65,000 grant from the City of Minneapolis was reflected under unrestricted net assets. In fiscal year 2008, OSOM negotiated with the City of Minneapolis to expand the scope of this grant to \$215,000. The \$215,000 is reflected as temporarily restricted at March 31, 2008. March 31, 2007, has been restated to reflect the \$65,000 as temporarily restricted. OSOM expects to expend these monies in fiscal year 2009.

Temporarily restricted net assets are available for:

	<u>2008</u>	<u>2007</u>
Emergency shelter renovations	\$ 215,000	\$ 65,000
English Learning Center and Our Saviour's housing programs	15,000	-
Emergency food and shelter	6,100	-
Diversity awareness	<u>-</u>	<u>1,640</u>
	<u>\$ 236,100</u>	<u>\$ 66,640</u>

3. Benefit Plans

The Organization provides a tax deferred annuity plan for its employees under section 403(b) of the Internal Revenue Code. Employer retirement plan contributions totaled \$14,107 in 2008 and \$13,737 in 2007.

4. Note Payable - Minneapolis Area Synod

In May 2005, the Minneapolis Area Synod loaned OSOM \$20,000. The note was non interest bearing, unsecured and due on demand. OSOM repaid this note in April 2006.

5. Note Payable - Nonprofits Assistane Fund

In 2005, OSOM entered into a \$100,000 loan agreement with the Nonprofits Assistance Fund. This loan bore interest at 9.0% per annum, was secured by a mortgage on one of the transitional housing units and a pledge of all of the Organization's assets. The note was repaid in April 2006.

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OUR SAVIOUR'S OUTREACH MINISTRIES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2008 AND 2007

6. Note Payable - Bank

In February 2008, OSOM borrowed \$22,175 from Franklin Bank to acquire a passenger van. This loan is payable in monthly payments of \$450.79 including interest at 8.0%. This loan is secured by the van.

Future maturities are as follows:

2009	\$ 3,797
2010	4,112
2011	4,453
2012	4,823
2013	<u>4,687</u>
	<u>\$ 21,872</u>

7. Notes Payable - Transitional Housing

OSOM is indebted to the Minnesota Housing Finance Agency for notes on its transitional housing unit. These notes provide for forgiveness of indebtedness on anniversary dates of the obligations provided OSOM continues to comply with the terms of the agreements. If OSOM does not comply with the terms of the agreements all amounts are immediately due and payable to the Minnesota Housing Finance Agency. Future scheduled debt forgiveness on these obligations is as follows:

2009	\$ 4,115
2010	4,115
2011	4,115
2012	4,115
2013	4,115
Thereafter	<u>38,066</u>
	<u>\$ 58,641</u>

In April 2006, OSOM sold one of the transitional housing units. This sale settled two of the MHFA mortgages aggregating \$111,415.

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