Franciscan Ministries, Inc.
Financial Statements
For the Years Ended December 31, 2018 and 2017
Together with Independent Auditor's Report

Franciscan Ministries, Inc.

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Independent Auditor's Report

To the Board of Directors of
Franciscan Ministries, Inc.
Cincinnati, Ohio

Report on the 2018 Financial Statements

We have audited the accompanying financial statements of Franciscan Ministries, Inc., (a nonprofit organization) which comprise the statement of financial position – modified cash basis as of December 31, 2018, and the related statement of activities – modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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 audit 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Ministries, Inc. as of December 31, 2018, and the changes in its net assets for the year then ended, in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The 2017 financial statements were reviewed by us, and our report thereon, dated April 5, 2018 stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with the basis of accounting Franciscan Ministries, Inc. uses as described in Note 1. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Stephenson and Warner, Inc.
Hamilton, Ohio

April TBD, 2019

Franciscan Ministries, Inc.
Statements of Financial Position – Modified Cash Basis
December 31, 2018 (Audited) and 2017 (Reviewed)

Assets

	2018	2017
Current assets		
Cash and cash equivalents	$ 205,202	$ 189,303
Inventory	11,647	-
Total current assets	216,849	189,303
Property and equipment, net	524,471	531,060
Total assets	741,320	720,363

Net Assets

	2018	2017
Net assets		
Without donor restrictions	679,996	720,363
With donor restrictions	61,324	-
Total net assets	741,320	720,363
Total net assets	$ 741,320	$ 720,363

See independent auditor's report and the notes to the financial statements.

Franciscan Ministries, Inc.
Statements of Activities – Modified Cash Basis
For the Years Ended December 31, 2018 (Audited) and 2017 (Reviewed)

	2018			2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Support, revenue and other income						
Ministry revenue	$ 385,336	$ -	$ 385,336	$ 303,689	$ -	$ 303,689
Grants	255,197	61,324	316,521	298,945	-	298,945
Rent income	298,892	-	298,892	340,495	-	340,495
Contributions	140,045	-	140,045	103,759	-	103,759
Fundraising	35,784	-	35,784	33,115	-	33,115
Miscellaneous income	22,342	-	22,342	7,173	-	7,173
Interest income	-	-	-	2	-	2
Total support, revenue and other income	1,137,596	61,324	1,198,920	1,087,178	-	1,087,178
Expenses						
Compensation and related	715,157	-	715,157	636,391	-	636,391
Payroll taxes and related	80,646	-	80,646	64,224	-	64,224
Supplies	62,861	-	62,861	44,934	-	44,934
Utilities	55,934	-	55,934	54,691	-	54,691
Depreciation	34,915	-	34,915	35,205	-	35,205
Food	34,467	-	34,467	38,790	-	38,790
Rent	31,523	-	31,523	36,952	-	36,952
Equipment leases and maintenance	25,271	-	25,271	27,061	-	27,061
Consultants and contractors	24,055	-	24,055	20,006	-	20,006
Property taxes	16,749	-	16,749	17,277	-	17,277
Insurance	14,011	-	14,011	28,511	-	28,511
Advertising	13,929	-	13,929	15,388	-	15,388
Fundraising	10,732	-	10,732	11,080	-	11,080
Telephone	9,467	-	9,467	8,976	-	8,976
Postage and printing	9,410	-	9,410	9,548	-	9,548
Computer	9,396	-	9,396	9,719	-	9,719
Travel	9,229	-	9,229	8,095	-	8,095
Bank fees	7,620	-	7,620	3,954	-	3,954
Professional fees	7,222	-	7,222	9,200	-	9,200
Miscellaneous expenses	3,705	-	3,705	3,686	-	3,686
Dues and subscriptions	1,664	-	1,664	3,573	-	3,573
Employee benefits	-	-	-	16	-	16
Total expenses	1,177,963	-	1,177,963	1,087,277	-	1,087,277
Change in net assets	(40,367)	61,324	20,957	(99)	-	(99)
Net assets, beginning of year	720,363	-	720,363	720,462	-	720,462
Net assets, end of year	$ 679,996	$ 61,324	$ 741,320	$ 720,363	$ -	$ 720,363

See independent auditor's report and the notes to the financial statements.

Franciscan Ministries, Inc.
Notes to the Financial Statements
December 31, 2018 (Audited) and 2017 (Reviewed)

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Franciscan Ministries, Inc. (the Organization) is a nonprofit organization incorporated in the State of Ohio. The Organization operates six separate ministries under one Ministry of Franciscan Sisters of the Poor. Each ministry is inspired by the example of our founder Frances Schervier and operates to meet the needs of our communities. The Organization creates caring relationships through a healing presence that fosters dignity in the people we serve. The Organization operates primarily in Hamilton County, Ohio with significant financial support from ministry revenue, ministry related rent revenue, and grants and contributions.

Basis of Presentation – The financial statements of the Organization have been prepared on the cash basis of accounting, modified to record certain assets or liabilities with respect to cash transactions and events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transactions or events occurred. The modifications result in the recording of capital assets and inventory on the statements of financial position – modified cash basis. Except for depreciation and inventory purchases, all transactions are recognized as revenue or expenses when received or paid in cash. Except for depreciation, noncash transactions are not recognized. This basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP), as contained in the Accounting Standards Codification (ASC) issued by the Financial Accounting Standards Board (FASB). The basis of accounting differs from GAAP primarily because certain revenue and related assets have been recognized when received rather than when earned and certain expenses and related liabilities have been recognized when paid rather than when the obligations were incurred. The Organization has not adopted most of the reporting requirements of FASB's ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for Profit Entities.*

Use of Estimates – The preparation of financial statements in accordance with the modified cash basis of accounting requires management to make estimates and assumptions that affect some the reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the useful lives of property and equipment and the fair value of financial instruments. Actual results could differ, materially, from those estimates.

Reclassification – Certain 2017 amounts were reclassified to agree with the 2018 presentation. There are no substantive changes in amounts originally reported.

Cash and Cash Equivalents – Cash and cash equivalents consist in the statements of financial position – modified cash basis of cash and monies deposited in banks with maturity dates of less than three months.

Property and Equipment – Property and equipment are presented at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives on assets range from 5 years for equipment to 40 years for buildings. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in change in net assets for the period.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies, continued

The cost of maintenance and repairs is charged to change in net assets as incurred; significant renewals and betterments are capitalized. Generally, property and equipment, which cost more than $5,000 and have a useful life greater than one year are capitalized. The Organization assesses the recoverability of the carrying amount of property and equipment if events or changes occur, such as a significant decrease in the market value of the assets or a significant change in operating activities.

Accrued Paid Time Off – Earned and unpaid compensated time off has not been accrued and recognized in the Organization's financial statements.

Net Asset Classifications – Net assets without donor restrictions are free from donor-imposed restrictions. Net assets without donor restrictions may be used at the discretion of management to support the Organization's purposes and operations. Net assets with donor restrictions include contributions for which donor-imposed purpose or time restrictions have not been achieved.

Support and Revenues – Support and revenue is recognized when cash is received. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. Donor restrictions that are met in the same reporting period that the contribution is received are reported as contributions without donor restrictions.

Contributed Services – The Organization receives a substantial amount of services donated by its members in carrying out the Organization's mission. No amounts have been reflected in the financial statements for services since they do not meet criteria for recognition under Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC).

Income Taxes – The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). The Internal Revenue Service has determined that the Organization qualifies for the charitable contribution deduction under the Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Currently, the Organization engages in no activities that would be taxed as unrelated business income, and the Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions. The Organization's information tax returns for the years 2015 through 2018 are subject to examination by the Internal Revenue Service, although that agency has not indicated any intent to do so.

Fair Value of Financial Instruments – ASC Section 820 requires certain disclosures for the fair value measurements of financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Section 820 establishes a framework for measuring fair value which includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Section 820 are:

Note 1 – Nature of Operations and Summary of Significant Accounting Policies, continued

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization is able to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation method are unobservable and significant to the fair value measurement.

The level at which the fair value of an asset or liability will be measured is based on the highest priority of any available input that is significant to the fair value measurement. Valuation techniques used attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. These standards apply to all financial assets and liabilities as well as nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The valuation methodologies, which have not changed during 2018 and 2017, are: the carrying values of cash and cash equivalents approximate their fair values due to their short-term duration. There are no fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in our financial statements on a recurring basis.

Advertising Costs – The Organization expenses advertising costs as incurred.

Inventory – Consists primarily of supplies for events at the Centennial Barn is stated at cost.

Note 2 – Date of Management's Review

In preparing the financial statements, management has evaluated subsequent events and transactions subsequent to December 31, 2018 for potential recognition or disclosure through April TBD, 2019, which represents the date the financial statements were available to be issued.

Note 3 – Property and Equipment, net

The balances were:

	2018	2017
Building and improvements	$ 589,536	$ 581,133
Land	62,241	62,241
Leasehold improvements	-	56,056
Furniture and fixtures	152,730	132,806
Vehicles	70,744	70,744
	875,251	902,980
Accumulated depreciation	(350,780)	(371,920)
	$ 524,471	$ 531,060
Depreciation	$ 34,915	$ 35,205

Note 4 – Rent Income

The Organization operates a senior independent living facility. The Organization collects rent from the tenants of the facility on a month to month basis. The Organization recognized rent income for the senior independent living facility of $295,413 and $340,060 in 2018 and 2017, respectively. The Organization recognized rent income for community garden space of $3,479 and $350 in 2018 and 2017, respectively.

Note 5 – Operating Leases

The Organization leases a facility related to its Tau House program that ends in December 2019. The monthly lease payments are based on the number of people occupying the leased premises. The Organization made lease payments of $25,523 and $30,996 in 2018 and 2017, respectively.

The Organization leases a facility related to its Tamar's Center program on a month to month basis. The monthly lease payments are $500. The Organization made lease payments of $6,000 and $6,075 in 2018 and 2017, respectively.

The Organization leased copier equipment for its Centennial Barn program and for the administrative office that ended in December 2018. The monthly lease payments were $219. A new copier lease agreement was signed in January 2019, which ends in April 2024. The monthly lease payments are $175. The Organization made lease payments of $3,943 and $3,943 in 2018 and 2017, respectively.

The Organization leases postage meter equipment for its Our Lady of the Woods program that ends in November 2019. The monthly lease payments are $47. The Organization made lease payments of $564 and $564 in 2018 and 2017, respectively.

The Organization uses space from a third party for its Haircuts from the Heart program free of charge. An in-kind contribution has not been recognized in the financial statements for the use of this space.

Note 5 – Operating Leases, continued

Future minimum payments for the years ending December 31 are as follows:

2019	$	2,664
2020		2,100
2021		2,100
2022		2,100
2023		2,100
Thereafter		700
	$	11,764

Note 6 – Concentrations of Risks and Uncertainties

The Organization obtains significant support and revenue from a few sources and operates primarily in the Hamilton County, Ohio geographic area. The Organization receives 24% of its revenue from the operation of a senior independent living facility. The Organization receives 58% of its contributions and grants from one donor.

Significant cash balances are maintained in commercial banks. These balances are insured by the Federal Deposit Insurance Corporation (FDIC). The Organization may, during the course of the year, maintain cash balances in excess of the FDIC insurance coverage.

Note 7 – Related Parties

On occasion members of management and members of the Organization's Board of Directors make monetary and non-monetary contributions to the Organization.

The Organization's members, which hold and exercise reserved powers over the Board of Directors and management, are appointed by the President of the Franciscan Sisters of the Poor, Inc. (the Congregation). The Congregation and its related entities provide significant financial support to the Organization through contributions and grants. The Congregation and its related entities provided financial support of $267,496 and $282,950 in 2018 and 2017, respectively.

The Organization is also covered by the Congregation's insurance policies, and the Congregation provides other in-kind support and services not recorded in the Organization's financial statements. The Organization reimbursed the Congregation $11,172 for insurance and $342 for other expenses in 2018.

Note 8 – Net Assets with Donor Restrictions

The net assets with donor restrictions consist of the following:

	2018	2017
Tamar's Center - shelter manager	$ 43,235	$ -
Haircuts from the Heart - voucher program	10,589	-
Tamar's Center - for vehicle	7,500	-
	$ 61,324	$ -

The net assets with donor restrictions are reported as cash and cash equivalents on the statements of financial position.