

Servants, Inc. and Affiliate

**Consolidated Financial Statements and
Supplementary Information**

December 31, 2017 and 2016



Servants, Inc. and Affiliate

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December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
Servants, Inc. and Affiliate
Red Lion, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Servants, Inc. and Affiliate, which comprise the consolidated statement of financial position - modified cash basis as of December 31, 2017 and 2016, and the related consolidated statements of activities - modified cash basis and changes in unrestricted net assets - modified cash basis for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Servants, Inc. and Affiliate as of December 31, 2017 and 2016, and the changes in its unrestricted net assets for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on 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.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the modified cash basis of accounting. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

RKL LLP

November 6, 2018
York, Pennsylvania

Servants, Inc. and Affiliate

Consolidated Statement of Financial Position - Modified Cash Basis

	December 31,	
	2017	2016
Assets		
Current Assets		
Cash	\$ 41,847	\$ 97,112
Asset Held for Sale	24,300	24,300
Interest in Net Assets of a Foundation	6,715	5,537
Total Assets	\$ 72,862	\$ 126,949
Liabilities and Unrestricted Net Assets		
Liabilities	\$ -	\$ -
Unrestricted Net Assets	72,862	126,949
Total Liabilities and Unrestricted Net Assets	\$ 72,862	\$ 126,949

Servants, Inc. and Affiliate

Consolidated Statement of Activities - Modified Cash Basis

	Years Ended December 31,	
	2017	2016
Support and Revenue		
Home Helps	\$ 197,749	\$ 263,760
General donations	151,358	190,660
Missionary support	148,481	154,955
Mission trips	91,166	82,439
Serving At-Risk Families	85,041	45,249
In-kind donations	18,358	37,418
Other revenue	7,729	2,941
Disaster recovery	4,526	3,000
Interest income	14	10
	<u>704,422</u>	<u>780,432</u>
Total Support and Revenue	<u>704,422</u>	<u>780,432</u>
Expenses		
Program services	578,782	574,303
Supporting services		
Management and general	74,736	77,107
Fundraising	106,169	71,460
	<u>759,687</u>	<u>722,870</u>
Total Expenses	<u>759,687</u>	<u>722,870</u>
Excess (Deficit) of Support and Revenue over Expenses	(55,265)	57,562
Changes in Interest in Net Assets of a Foundation	<u>1,178</u>	<u>171</u>
Changes in Unrestricted Net Assets	<u>\$ (54,087)</u>	<u>\$ 57,733</u>

Servants, Inc. and Affiliate**Consolidated Statement of Changes in Unrestricted Net Assets - Modified Cash Basis**

	Years Ended December 31,	
	2017	2016
	<hr/>	<hr/>
Unrestricted Net Assets at Beginning of Year	\$ 126,949	\$ 69,216
Changes in unrestricted net assets	<hr/> (54,087)	<hr/> 57,733
Unrestricted Net Assets at End of Year	<u>\$ 72,862</u>	<u>\$ 126,949</u>

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 1 - Nature of Operations

Servants, Inc. is a not-for-profit organization formed in 2000. Their mission is to serve Christ through serving others. Servants, Inc. was established to connect people in need with people who want to serve. Servants, Inc. serves the elderly, disabled, single parents, and those with financial needs by providing service programs in York County, Pennsylvania, across the United States, and around the world.

Servants of Guatemala (a Guatemalan organization) was formed in 2014 in order to establish Serving At-Risk Families, a ministry in Guatemala. The goal of the ministry is to provide education, job training, and access to healthcare to those in need who reside in Guatemala. Servants, Inc. exercises influence over Servants of Guatemala through common control. Additionally, Servants, Inc. provides financial support to Servants of Guatemala. During the years ended December 31, 2017 and 2016, Servants of Guatemala had no activity.

For purposes of these consolidated financial statements, the entities are collectively referred to as the Organization. The Organization's primary source of revenue is from contributions.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Use of Estimates

The preparation of consolidated financial statements in accordance with the modified cash basis of accounting may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements include the accounts of Servants, Inc. and Servants of Guatemala. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The Organization prepares its consolidated financial statements on the cash basis of accounting, modified for recording interest in net assets of a foundation and assets held for sale as assets and the changes in value in interest in net assets of a foundation and in-kind contributions as revenues and expenses, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, certain revenue and related assets are recognized only when cash is received rather than when earned and certain expenses are recognized only when cash is paid rather than when the liability is incurred.

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Asset Held for Sale

The Organization has recorded as asset held for sale a building, which was donated to the Organization during the year ended December 31, 2016 (refer to Note 7). Asset held for sale is reported at the lower of net book value or fair value, less estimated selling costs. Fair value is determined by management based on appraisal and estimated sales price.

Interest in Net Assets of a Foundation

Interest in net assets of a foundation is reported at fair value as determined by the foundation.

Net Assets

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that 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 the actions of the Organization and/or the passage of time. The Organization currently has no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. The Organization currently has no permanently restricted net assets.

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Functional Expenses

The cost of providing the various programs and other activities are summarized on a functional basis in the consolidated statement of activities - modified cash basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Supporting services include management and general expenses and fundraising expenses.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense amounted to \$3,612 and \$2,372 for the years ended December 31, 2017 and 2016, respectively.

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities. The guidance is effective for fiscal years beginning after December 15, 2019.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entities. The standard improves current requirements related to net asset classifications, liquidity assessment, expense reporting consistency, and methods used to present cash flow from operations. This guidance is effective for fiscal years beginning after December 15, 2017.

The Organization is currently evaluating the impact of the pending adoption of the new standards on the consolidated financial statements.

Subsequent Events

The Organization has evaluated subsequent events through November 6, 2018, which is the date the consolidated financial statements were available to be issued. No material events subsequent to December 31, 2017 were noted, except as disclosed in Note 11.

Note 3 - Tax-Exempt Status

Servants, Inc. is a not-for-profit entity described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from income taxes on related activities pursuant to Section 509(a) of the Code. In addition, they were organized under the Pennsylvania Nonprofit Corporation Law and are exempt from state income taxes.

Servants of Guatemala is a Guatemalan not-for-profit entity and is exempt from income taxes as determined by the Guatemalan Tax Administration.

Accounting principles require management to evaluate tax positions taken by the Organization, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that the Organization had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. Federal, state, or local authorities for years before December 31, 2014.

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 4 - Concentration of Credit Risk

At times during the years ended December 31, 2017 and 2016, the Organization's cash balances may have exceeded the federally insured limit of \$250,000.

Note 5 - Fair Value of Financial Instruments

The fair value hierarchy prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority 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 are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following valuation techniques were used to measure fair value of assets in the table below on a recurring basis:

Interest in net assets of a foundation - Fair value of the interest in net assets of a foundation was based on the Organization's ownership interest of the fund as determined by the foundation. The fund assets were valued based on the performance of underlying investments as well as an administrative fee.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are as follows as of December 31:

	2017			
	Total	Level 1	Level 2	Level 3
Interest in net assets of a foundation	\$ 6,715	\$ -	\$ -	\$ 6,715

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 5 - Fair Value of Financial Instruments (continued)

	2016			
	Total	Level 1	Level 2	Level 3
Interest in net assets of a foundation	\$ 5,537	\$ -	\$ -	\$ 5,537

For assets falling within Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31, 2017 and 2016 is as follows:

	Interest in Net Assets of a Foundation
Balance as of December 31, 2015	\$ 5,366
Unrealized gains	171
Balance as of December 31, 2016	5,537
Unrealized gains	1,178
Balance as of December 31, 2017	\$ 6,715

The unrealized gains for interest in net assets of a foundation, classified as Level 3, are included as changes in interest in net assets of a foundation, in the consolidated statement of activities - modified cash basis.

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended December 31, 2017 and 2016, there were no transfers in or out of Level 3.

Note 6 - Interest in Net Assets of a Foundation

The Organization is a beneficiary of several endowment funds of the United Methodist Stewardship Foundation (Foundation). The Foundation maintains variance power over distributions from the funds. As beneficiary, the Organization is entitled to annual distributions from the funds, based upon the Foundation's spending policy.

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 6 - Interest in Net Assets of a Foundation (continued)

The endowment funds created by the Organization at the Foundation are reflected in the consolidated statement of financial position - modified cash basis as interest in net assets of a foundation. Through December 31, 2017 and 2016, the Organization has contributed \$5,366 to the funds. Future contributions are at the discretion of the Board of Directors of the Organization.

Note 7 - In-Kind Contributions

Contributed assets, including contributed equipment and supplies, are reported in the accompanying consolidated financial statements at their fair market value as of the date received.

During the years ended December 31, 2017 and 2016, the Organization also recognized the value of contributed services that met the requirements for recognition in the consolidated statement of activities - modified cash basis. In addition, a number of individual volunteers and businesses have donated amounts of time to the Organization's programs and fundraising activities. These services do not meet the criteria for recognition as contributed services, and are not reflected on the accompanying consolidated financial statements.

In-kind contributions consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Minor tools and equipment	\$ 6,778	\$ 1,052
Supplies	6,330	9,366
Advertising	3,000	2,500
Professional fees	2,250	-
Building	-	24,300
General family support	-	166
Postage	-	34
	<u>\$ 18,358</u>	<u>\$ 37,418</u>

Note 8 - Commitments

The Organization leases space for office facilities. The Organization entered into a lease agreement for office space in April 2014 with terms through May 2016. In May 2016, the lease was amended and terms of the lease were extended through May 2018.

Additionally, in 2017 the Organization entered into operating leases for various office equipment, which have varying terms and monthly payments.

Total rent expense amounted to \$15,315 and \$12,800 for the years ended December 31, 2017 and 2016, respectively.

Servants, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 8 - Commitments (continued)

Future minimum lease payments under operating leases, assuming no change in current terms, consist of the following for the five years ending December 31:

2018	\$	8,898
2019		3,748
2020		1,440
2021		900
2022		75
		<hr/>
	\$	15,061
		<hr/> <hr/>

Note 9 - Related Party

The Organization received contributions from several members of the Board of Directors. The Organization received contributions from the Board of Directors in the amount of \$50,071 and \$67,512 for the years ended December 31, 2017 and 2016, respectively.

During the years ended December 31, 2017 and 2016, Servants, Inc. provided financial support to Servants of Guatemala in the amount of \$53,917 and \$39,088, respectively.

Note 10 - Retirement Plan

On May 1, 2017, the Organization created a SIMPLE IRA plan that covers all employees, who meet certain length of service and compensation requirements. The plan provides for voluntary contributions by employees. Contributions to the plan will be paid by the Organization at a rate of 3.0% of gross compensation of eligible employees. The Organization's contributions to the plan were \$5,932 for the year ended December 31, 2017.

Note 11 - Subsequent Events

In June 2018, the Organization entered into a line of credit agreement with a local financial institution. In September 2018, the agreement was amended. Under the amended agreement, the Organization may borrow up to \$85,000 from July 1st through January 15th annually. From January 16th through June 30th annually, the maximum amount available under the line of credit shall be reduced to \$50,000. The line of credit bears interest, payable monthly, at the Wall Street Journal's prime rate. The line of credit is due on demand and is collateralized by substantially all assets of the Organization.

Servants, Inc. and Affiliate

Consolidated Schedule of Functional Expenses - by Natural Classification - Modified Cash Basis

Year Ended December 31, 2017

	Program Services					Supporting Services			Total
	Mission Trips	Serving At-Risk Families	Disaster Recovery Trips	Missionary Support	Home Helps	Total Program Services	Management and General	Fundraising	
Salaries	\$ 15,115	\$ 14,571	\$ 4,108	\$ 109,961	\$ 130,355	\$ 274,110	\$ 21,612	\$ 52,329	\$ 348,051
Other program expenses	1,051	54,201	-	12,740	-	67,992	-	-	67,992
Travel	38,366	12,788	2,232	5,992	4,268	63,646	475	-	64,121
Host fees	37,507	-	1,710	4,180	-	43,397	-	-	43,397
Supplies	8	-	169	287	41,429	41,893	1,156	-	43,049
Payroll taxes	745	1,430	154	6,823	23,387	32,539	2,364	5,376	40,279
Education expense	-	18,288	-	5,307	-	23,595	591	228	24,414
Fundraising	-	-	-	-	-	-	-	21,817	21,817
Professional fees	-	-	-	-	-	-	16,574	-	16,574
Miscellaneous	610	50	-	3,375	5,277	9,312	5,260	-	14,572
Office facility rent	962	-	481	-	7,599	9,042	1,268	3,060	13,370
Insurance	840	2,164	-	-	-	3,004	10,350	-	13,354
Printing	-	-	-	-	-	-	-	9,235	9,235
Minor tools and equipment	-	-	-	-	714	714	5,702	-	6,416
Utilities	448	-	224	-	3,541	4,213	592	1,426	6,231
Dues and subscriptions	-	-	-	-	-	-	950	5,076	6,026
Postage	-	28	-	32	-	60	867	3,633	4,560
Telephone	-	-	-	1,768	427	2,195	1,693	-	3,888
Advertising	-	-	-	-	-	-	-	3,612	3,612
Bank service charges	-	-	-	-	-	-	3,202	377	3,579
Meals	801	372	511	367	1,019	3,070	389	-	3,459
Vehicle expense	-	-	-	-	-	-	1,243	-	1,243
Meetings	-	-	-	-	-	-	448	-	448
General family support	-	-	-	-	-	-	-	-	-
	<u>\$ 96,453</u>	<u>\$ 103,892</u>	<u>\$ 9,589</u>	<u>\$ 150,832</u>	<u>\$ 218,016</u>	<u>\$ 578,782</u>	<u>\$ 74,736</u>	<u>\$ 106,169</u>	<u>\$ 759,687</u>

Servants, Inc. and Affiliate

Consolidated Schedule of Functional Expenses - by Natural Classification - Modified Cash Basis (continued)

Year Ended December 31, 2016

	Program Services					Supporting Services			Total
	Mission Trips	Serving At-Risk Families	Disaster Recovery Trips	Missionary Support	Home Helps	Total Program Services	Management and General	Fundraising	
Salaries	\$ 12,984	\$ 11,153	\$ 466	\$ 135,401	\$ 148,909	\$ 308,913	\$ 36,146	\$ 32,076	\$ 377,135
Other program expenses	-	23,549	-	14,762	-	38,311	-	-	38,311
Travel	37,096	-	224	5,665	6,076	49,061	-	-	49,061
Host fees	43,141	-	-	-	-	43,141	-	-	43,141
Supplies	135	-	36	49	68,889	69,109	2,937	-	72,046
Payroll taxes	1,043	855	37	13,494	21,341	36,770	5,181	2,516	44,467
Education expense	-	-	-	2,000	-	2,000	140	886	3,026
Fundraising	-	-	-	-	-	-	-	14,388	14,388
Professional fees	-	-	-	-	197	197	8,855	-	9,052
Miscellaneous	729	835	-	-	2,965	4,529	848	-	5,377
Office facility rent	892	446	-	-	7,048	8,386	2,339	2,075	12,800
Insurance	194	482	-	-	-	676	3,350	-	4,026
Printing	-	-	-	-	-	-	-	5,529	5,529
Minor tools and equipment	-	683	-	-	2,790	3,473	7,165	-	10,638
Utilities	525	262	-	-	4,146	4,933	1,376	1,221	7,530
Dues and subscriptions	-	-	-	-	-	-	374	3,342	3,716
Postage	-	19	-	-	-	19	1,087	7,055	8,161
Telephone	-	-	-	-	1,273	1,273	228	-	1,501
Advertising	-	-	-	-	-	-	-	2,372	2,372
Bank service charges	-	-	-	-	-	-	4,109	-	4,109
Meals	1,664	620	436	-	608	3,328	318	-	3,646
Vehicle expense	-	18	-	-	-	18	2,634	-	2,652
Meetings	-	-	-	-	-	-	20	-	20
General family support	-	166	-	-	-	166	-	-	166
	<u>\$ 98,403</u>	<u>\$ 39,088</u>	<u>\$ 1,199</u>	<u>\$ 171,371</u>	<u>\$ 264,242</u>	<u>\$ 574,303</u>	<u>\$ 77,107</u>	<u>\$ 71,460</u>	<u>\$ 722,870</u>