YOUTH ENCOURAGEMENT SERVICES, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018

YOUTH ENCOURAGEMENT SERVICES, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Youth Encouragement Services, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Youth Encouragement Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows 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 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.

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.

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Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, certain land and buildings are stated at estimated appraisal value as of December 31, 1994 in the accompanying statement of financial position. Also, depreciation expense has not been recorded for all years in which the buildings have been in service. In our opinion, such assets should be stated at acquisition cost, net of depreciation on buildings, to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practices are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of valuing land and buildings at appraisal value, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Encouragement Services, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bellenfant, PLLC

March 28, 2019

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

CURRENT ASSETS		
Cash	$	100,923
Investments		98,305
Accounts Receivable		8,618
Total Current Assets		207,846
PROPERTY AND EQUIPMENT		
Land		106,236
Land Improvements		20,471
Buildings		651,955
Furniture, Fixtures, and Equipment		83,661
Vehicles		177,561
Less: Accumulated Depreciation		(699,399)
Property and Equipment, net		340,485
Total Assets		548,331

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable and Accrued Expenses		16,997
Line of Credit		49,728
Capital Lease Obligation, current portion		4,668
Total Current Liabilities		71,393
Capital Lease Obligation, non-current portion		1,548
Total Liabilities		72,941
NET ASSETS		
Net Assets Without Donor Restrictions		365,390
Net Assets With Donor Restrictions		110,000
Total Net Assets		475,390
Total Liabilities and Net Assets	$	548,331

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Public Support:			
Special Campaigns	$ 101,193	$ -	$ 101,193
In-Kind Donations	105,353	-	105,353
Bequests	32,949		32,949
Contributions	213,562	-	213,562
Grants	82,500	10,250	92,750
Christmas Store	33,428		33,428
Registration Fees	4,140	-	4,140
Total Public Support	573,125	10,250	583,375
Other Revenue:			
Miscellaneous Income	1,865	-	1,865
Interest	1,835	-	1,835
Investment Gain (Loss)	(11,523)	-	(11,523)
Net assets released from restrictions	35,404	(35,404)	-
Total Revenue	600,706	(25,154)	575,552
EXPENSES			
Program Services	458,809	-	458,809
Management and General	218,998	-	218,998
Fundraising	37,042	-	37,042
Total Expenses	714,849	-	714,849
Change in Net Assets	(114,143)	(25,154)	(139,297)
Net Assets, beginning of the year	479,533	135,154	614,687
Net Assets, end of the year	$ 365,390	$ 110,000	$ 475,390

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Inner City Centers	Camp	Reading Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and Wages	95,070	-	6,425	101,495	129,027	-	129,027	230,522
Employee Benefits	19,397	-	-	19,397	10,130	-	10,130	29,527
Payroll Taxes	8,149	-	492	8,641	6,997	-	6,997	15,638
Housing Allowance	44,400	-	-	44,400	-	-	-	44,400
Program Materials (including $105,353 in-kind)	133,146	-	1,649	134,795	775	400	1,175	135,970
Fundraising Activities	-	-	-	-	-	6,227	6,227	6,227
Camp Activities	-	10,204	-	10,204	-	-	-	10,204
Vehicles	11,090	-	-	11,090	1,848	-	1,848	12,938
Repairs and Maintenance	17,229	-	-	17,229	1,685	-	1,685	18,914
Utilities	43,149	-	-	43,149	6,514	-	6,514	49,663
							-	
Insurance	17,324	-	-	17,324	18,387	-	18,387	35,711
Professional Services	13,570	-	563	14,133	15,395	28,800	44,195	58,328
Depreciation	34,658	-	-	34,658	-	-	-	34,658
Office Expenses	-	-	-	-	6,530	-	6,530	6,530
Office Supplies	42	-	-	42	6,141	-	6,141	6,183
							-	
Banking Fees	-	-	-	-	3,724	50	3,774	3,774
Travel, Meals, and Entertainment	-	-	144	144	5,275	-	5,275	5,419
Interest	-	-	-	-	2,675	-	2,675	2,675
Equipment and Comptuers	2,108	-	-	2,108	3,895	1,565	5,460	7,568
Total Expenses	439,332	10,204	9,273	458,809	218,998	37,042	256,040	714,849

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (139,297)
Depreciation	34,658
Realized/Unrealized (Gain) Loss on Investments	11,523
Adjustments to reconcile change in net assets to net cash provided by operations	
(Increase) Decrease in:	
Accounts Receivable	(8,480)
Prepaid Expenses	2,682
Increase (Decrease) in:	
Accounts Payable and Accrued Expenses	1,872
Net Cash Provided (Used) by Operating Activities	(97,042)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Fixed Assets	(1,389)
Withdrawal from Investments	126
Net Cash Provided (Used) by Investing Activities	(1,263)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Line of Credit	(15,000)
Principal Payments on Capital Lease Obligation	(4,668)
Net Cash Provided (Used) by Financing Activities	(19,668)
Net Increase (Decrease) in Cash	(117,973)
Cash, beginning of the year	218,896
Cash, end of the year	$ 100,923

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

Youth Encouragement Services (the "Organization") was incorporated as a nonprofit entity for the purpose of providing programs for the benefit of children who reside in the inner city. The Organization is funded primarily through contributions from corporations, individuals, and churches.

Program Services:

Inncer City Centers

Each day, youth development and enrichment programming is provided for students who reside in high-need, urban communities. Centers are designed to provide a safe place for children to grow spiritually, academically, physically, and socially. Comprehensive programs including tutoring assistance, literacy and financial literacy initiatives, mentoring, organized recreational sports, and cultural experiences help support school aged youth in K-12th grade.

Camp

A summer camp is provided for inner city youth at the Organization's Dividing Ridge Camp location in Robertson County, Tennessee.

Financial Statement Presentation

The financial statements of the Organization are presented on the accrual basis of accounting. Revenue is generally recognized when earned. Expenses are generally recognized when incurred.

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, 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.

Net assets without donor restrictions - These are net assets that are not subject to donor-imposed stipulations. The Organization had $365,390 of net assets without donor restrictions as of December 31, 2018.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Net assets with donor restrictions - These are 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. This classification also includes net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization had $110,000 of net assets with donor restrictions as of December 31, 2018.

The Organization accounts for contributions in accordance with the requirements of the FASB Accounting Standards Codification Revenue Recognition Topic. In accordance with the FASB Accounting Standards Codification, contributions received are recorded depending on the existence or nature of any donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured.

Investments

The Organization accounts for investments in accordance with FASB Accounting Standards Codification topic relating to Accounting for Certain Investments Held by Not-for-Profit Organizations. Under FASB Accounting Standards Codification, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair market values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Investment income and unrealized gains and losses are reported as changes in unrestricted net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are reported.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Land and buildings amounting to $106,236 and $166,812, respectively, are recorded at estimated appraised value as of December 31, 1994. Property and equipment acquired subsequent to December 31, 1994 are recorded at acquisition cost. Depreciation of property and equipment has been provided since June 30, 1990, over the estimated useful lives of the respective assets primarily on a straight-line basis.

Donated Materials, Services, and Assets

The following donations are reflected as contributions in the accompanying statements at their estimated values at the date of receipt for the year ended December 31, 2018:

Christmas Store	$ 63,550
Development	615
Lindsley	8,600
McIver	13,450
Auction	19,138
Total In-Kind	$ 105,353

Contributions of donated services that create or enhance non-financial 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.

A number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. The Organization estimates receipt of approximately 4,246 volunteer hours for the year ended December 31, 2018. However, these services do not meet the requirements above and have not been recorded in the accompanying financial statements.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donors. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation.

The Organization has evaluated its tax positions in accordance with the Codification Standard relating to Accounting for Uncertainty in Income Taxes. The Organization believes that it has taken no uncertain tax positions.

The Organization files a U.S. Federal Form 990-Return of Organization Exempt from Income Tax. The Organization's returns for the years prior to calendar year 2015 are no longer open for examination.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Restricted Endowment Funds

The Uniform Prudent Management Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The FASB Accounting Standards Codification provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

2. FAIR VALUE OF INVESTMENTS

The Organization's investments are reported at fair value in the accompanying statements of financial position.

2. FAIR VALUE OF INVESTMENTS (Continued)

	Fair Value Measurements at December 31, 2018			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Sweep Balances	$ 8,049	$ 8,049	$ -	$ -
Mutual Funds	90,256	90,256	-	-
	$ 98,305	$ 98,305	$ -	$ -

The Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses the appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 2 Fair Value Measurements - The fair value of the investments are based on inputs other than quoted prices within Level 1 that are observable for the asset, either directly, or indirectly.

Level 3 Fair Value Measurements - The fair value of the investments are based on at least one significant unobservable input.

3. LINE OF CREDIT

The Organization has entered into a $100,000 line of credit agreement with a bank. The line bears interest at the prime interest rate as published by the Wall Street Journal plus 1% (currently 4.75%), and is secured by cash and other accounts of the Organization. The line of credit originally matured in May 2016, but was renewed in 2016 under the same terms with of maturity date of September 2017. During 2017, the Organization renewed the line of credit agreement again under the same terms with a maturity in January 2018. The Organization is currently in the process of paying the remaining balance, and is being charged interest until the full amount is paid. The amount outstanding under this line of credit was $49,728 as of December 31, 2018.

4. CAPITAL LEASE OBLIGATION

During 2014, the Organization entered into a capital lease agreement for a van that expires in May 2020 and requires monthly payments of $389. The asset recorded under this capital lease is included in property and equipment and consisted of the following at December 31, 2018:

Cost	$	28,000
Less: Accumulated Depreciation		(21,784)
Net Book Value	$	6,216

Future minimum lease payments required under this lease are as follows:

Years Ending December 31:		
2019		4,668
2020		1,548
	$	6,216

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are held in perpetuity with the income from assets expendable to support certain programs. A summary of the net assets with donor restrictions as of December 31, 2018 is as follows:

General Endowment Fund	$	105,000
Ardell Whitehead Endowment Fund		5,000
	$	110,000

The interest earned on net assets with donor restrictions is available to the Organization on an unrestricted basis.

6. ENDOWMENT

The Organization's endowment consists of donor restricted gifts held primarily in investment accounts. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

6. ENDOWMENT (Continued)

Changes in Endowment Net Assets for the fiscal year ended December 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginnning of year	$ (46)	$ -	$ 110,000	$ 109,954
Investment return, net appreciation	(11,649)	-	-	- (11,649)
Endowment net assets, end of year	$ (11,695)	$ -	$ 110,000	$ 98,305

Interpretation of Relevant Law

The Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individul donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature totaled $11,695 as of December 31, 2018.

Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

6. ENDOWMENT (Continued)

Endowment Investment Policy and Risk Parameters (Continued)

Under the Organization's policy, as approved by the Board of Directors, endowment assets are invested primarily in equity securities.

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk contraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating dividend and interest income from the endowment fund as necessary to fund Organization programs provided the investment balance is greater than the original gift value. Specific agreements with donors for income taken relative to their specific endowment gifts are exempted.

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 28, 2019 which is the date the financial statements were available to be issued.