

YOUTH ENCOURAGEMENT SERVICES, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2019

YOUTH ENCOURAGEMENT SERVICES, INC.

TABLE OF CONTENTS

Independent Auditor's Report	3
Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9



BELLENFANT

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Professional Accounting & Consulting Services

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, 2019, and the related statements of activities, functional expenses 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.

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, 2019, 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

Brentwood, Tennessee

March 24, 2020

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 80,623
Investments	120,274
Accounts Receivable	9,147
Prepaid Expenses	2,976
	<hr/>
Total Current Assets	213,020
	<hr/>

PROPERTY AND EQUIPMENT

Land	106,236
Land Improvements	20,471
Buildings	651,955
Furniture, Fixtures, and Equipment	83,661
Vehicles	177,561
	<hr/>
Less: Accumulated Depreciation	(729,760)
	<hr/>
Property and Equipment, net	310,124
	<hr/>
Total Assets	<u><u>\$ 523,144</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 24,612
Line of Credit	84,728
Capital Lease Obligation, current portion	1,548
	<hr/>
Total Current Liabilities	110,888
	<hr/>
Total Liabilities	<hr/>
	110,888
	<hr/>

NET ASSETS

Net Assets Without Donor Restrictions	302,256
Net Assets With Donor Restrictions	110,000
	<hr/>
Total Net Assets	412,256
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 523,144</u></u>

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Public Support:			
Special Campaigns	\$ 110,525	\$ -	\$ 110,525
In-Kind Donations	99,044	-	99,044
Bequests	26,762	-	26,762
Contributions	247,200	-	247,200
Grants	105,905	49,950	155,855
Christmas Store	18,380	-	18,380
Registration Fees	2,485	-	2,485
	<u>610,301</u>	<u>49,950</u>	<u>660,251</u>
Total Public Support			
	<u>610,301</u>	<u>49,950</u>	<u>660,251</u>
Other Revenue:			
Miscellaneous Income	1,448	-	1,448
Interest	692	-	692
Investment Gain (Loss)	21,969	-	21,969
	<u>23,109</u>	<u>-</u>	<u>23,109</u>
Net assets released from restrictions			
	<u>49,950</u>	<u>(49,950)</u>	<u>-</u>
Total Revenue	<u>\$ 684,360</u>	<u>\$ -</u>	<u>\$ 684,360</u>
EXPENSES			
Program Services	\$ 540,935	\$ -	\$ 540,935
Management and General	175,264	-	175,264
Fundraising	31,295	-	31,295
	<u>747,494</u>	<u>-</u>	<u>747,494</u>
Total Expenses			
	<u>747,494</u>	<u>-</u>	<u>747,494</u>
Change in Net Assets	<u>(63,134)</u>	<u>-</u>	<u>(63,134)</u>
Net Assets, beginning of the year	<u>365,390</u>	<u>110,000</u>	<u>475,390</u>
Net Assets, end of the year	<u><u>\$ 302,256</u></u>	<u><u>\$ 110,000</u></u>	<u><u>\$ 412,256</u></u>

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019

	Inner City Centers	Camp	Reading Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and Wages	\$ 132,418	\$ -	\$ 7,270	\$ 139,688	\$ 90,579	\$ -	\$ 90,579	\$ 230,267
Employee Benefits	20,044	-	-	20,044	7,485	-	7,485	27,529
Payroll Taxes	10,237	-	403	10,640	7,006	-	7,006	17,646
Housing Allowance	36,000	-	-	36,000	-	-	-	36,000
Program Materials (including \$99,044 in-kind)	132,253	-	2,615	134,868	597	-	597	135,465
Fundraising Activities	-	-	-	-	-	3,821	3,821	3,821
Camp Activities	-	12,783	-	12,783	-	-	-	12,783
Vehicles	6,426	-	-	6,426	412	-	412	6,838
Repairs and Maintenance	27,558	-	4,411	31,969	825	-	825	32,794
Utilities	41,405	-	-	41,405	6,201	-	6,201	47,606
							-	
Insurance	26,828	-	-	26,828	13,765	-	13,765	40,593
Professional Services	44,919	-	-	44,919	27,400	26,400	53,800	98,719
Depreciation	30,361	-	-	30,361	-	-	-	30,361
Office Expenses	-	-	-	-	2,456	-	2,456	2,456
Office Supplies	2,440	-	84	2,524	6,173	-	6,173	8,697
							-	
Banking Fees	-	-	-	-	3,949	304	4,253	4,253
Travel, Meals, and Entertainment	-	-	72	72	2,552	-	2,552	2,624
Interest	-	-	-	-	3,748	-	3,748	3,748
Equipment and Comptuers	2,108	-	300	2,408	2,116	770	2,886	5,294
Total Expenses	<u>\$ 512,997</u>	<u>\$ 12,783</u>	<u>\$ 15,155</u>	<u>\$ 540,935</u>	<u>\$ 175,264</u>	<u>\$ 31,295</u>	<u>\$ 206,559</u>	<u>\$ 747,494</u>

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (63,134)
Depreciation	30,361
Realized/Unrealized (Gain) Loss on Investments	(21,969)
Adjustments to reconcile change in net assets to net cash provided by operations	
(Increase) Decrease in:	
Accounts Receivable	(529)
Prepaid Expenses	(2,976)
Increase (Decrease) in:	
Accounts Payable and Accrued Expenses	<u>7,615</u>
Net Cash Provided (Used) by Operating Activities	<u>(50,632)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on Line of Credit	35,000
Principal Payments on Capital Lease Obligation	<u>(4,668)</u>
Net Cash Provided (Used) by Financing Activities	<u>30,332</u>
Net Increase (Decrease) in Cash	(20,300)
Cash, beginning of the year	<u>100,923</u>
Cash, end of the year	<u><u>\$ 80,623</u></u>

The accompanying notes are an integral part of these statements.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

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:

Inner City

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 hosted in Robertson County, Tennessee for children who reside in high-risk communities.

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 \$302,256 of net assets without donor restrictions as of December 31, 2019.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2019.

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.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019

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, 2019:

Christmas Store	\$ 70,200
Lindsley	9,335
McIver	150
Auction	<u>19,359</u>
Total In-Kind	<u><u>\$ 99,044</u></u>

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 3,188 volunteer hours for the year ended December 31, 2019. 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.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019

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 2016 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.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019

2. FAIR VALUE OF INVESTMENTS (Continued)

Fair Value Measurements at December 31, 2019				
	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	\$ 8,441	\$ 8,441	\$ -	\$ -
Mutual Funds	111,833	111,833	-	-
	<u>\$ 120,274</u>	<u>\$ 120,274</u>	<u>\$ -</u>	<u>\$ -</u>

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 \$84,728 as of December 31, 2019.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019

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, 2019:

Cost	\$ 28,000
Less: Accumulated Depreciation	<u>(26,452)</u>
Net Book Value	<u><u>\$ 1,548</u></u>

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

Years Ending December 31:	
<u>2020</u>	<u><u>\$ 1,548</u></u>

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, 2019 is as follows:

General Endowment Fund	\$ 105,000
Ardell Whitehead Endowment Fund	<u>5,000</u>
	<u><u>\$ 110,000</u></u>

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.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019

6. ENDOWMENT (Continued)

Changes in Endowment Net Assets for the fiscal year ended December 31, 2019:

	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	\$ (11,695)	\$ 110,000	\$ 98,305
Investment return, net appreciation	21,969	-	21,969
Endowment net assets, end of year	<u>\$ 10,274</u>	<u>\$ 110,000</u>	<u>\$ 120,274</u>

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 individual 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 did not exist as of December 31, 2019.

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.

YOUTH ENCOURAGEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019

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 constraints.

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. AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Association's financial assets as of December 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Financial assets, at year-end	\$ 200,897
Less: assets unavailable for general expenditures within one year, due to donor-imposed restrictions	(110,000)
Less: unrestricted investments held within equity securities	<u>(10,274)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 80,623</u></u>

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 24, 2020 which is the date the financial statements were available to be issued. As of January 30, 2020, the board authorized a merge with another non-profit which shares the same mission and vision, Carpenter's Square, Inc. Youth Encouragement Services, Inc. will assume all assets and liabilities of Carpenter's Square, Inc. and relocate to the Carpenter's Square facility later in 2020.