

STARS NASHVILLE
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017 AND 2016

STARS NASHVILLE

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June 30, 2017 and 2016

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January 12, 2018

Independent Auditor's Report

To the Board of Directors
STARS Nashville
Nashville, Tennessee

We have audited the accompanying financial statements of STARS Nashville (the Organization), a non-profit organization, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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

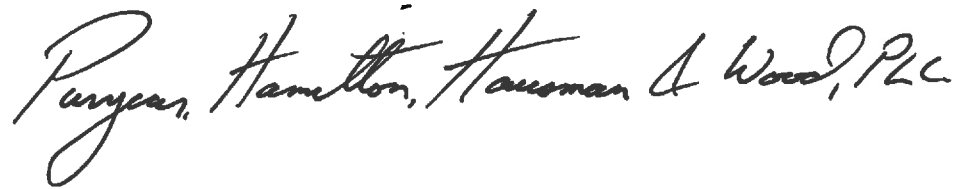
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Organization'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 Organization'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 STARS Nashville as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, reading "Puryear, Hamilton, Hausman & Wood, PLLC". The signature is written in a cursive, flowing style.

Franklin, Tennessee

STARS NASHVILLE

Statements of Financial Position

June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 58,565	\$ 295,874	\$ -	\$ 354,439
Investments	1,419,204	213,257	-	1,632,461
Accounts receivable	92,366	9,050	-	101,416
Unconditional promises to give	5,000	776,149	-	781,149
Grants receivable	102,695	-	-	102,695
Prepaid expenses	<u>21,713</u>	<u>-</u>	<u>-</u>	<u>21,713</u>
Total current assets	1,699,543	1,294,330	-	2,993,873
Property and equipment, net	2,804,625	-	-	2,804,625
Other assets, net	-	26,250	-	26,250
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$4,504,168</u>	<u>\$1,320,580</u>	<u>\$ 167,150</u>	<u>\$5,991,898</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 39,784	\$ -	\$ -	\$ 39,784
Accrued wages and benefits	173,619	-	-	173,619
Unearned revenue	<u>10,500</u>	<u>-</u>	<u>-</u>	<u>10,500</u>
Total current liabilities	223,903	-	-	223,903
Net assets	<u>4,280,265</u>	<u>1,320,580</u>	<u>167,150</u>	<u>5,767,995</u>
Total liabilities and net assets	<u>\$4,504,168</u>	<u>\$1,320,580</u>	<u>\$ 167,150</u>	<u>\$5,991,898</u>

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

STARS NASHVILLE**Statements of Financial Position (Continued)****June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 191,237	\$ 234,634	\$ -	\$ 425,871
Investments	823,189	178,276	-	1,001,465
Accounts receivable	92,761	11,965	-	104,726
Unconditional promises to give	-	806,989	-	806,989
Grants receivable	97,466	-	-	97,466
Prepaid expenses	<u>22,366</u>	<u>-</u>	<u>-</u>	<u>22,366</u>
Total current assets	1,227,019	1,231,864	-	2,458,883
Property and equipment, net	2,893,211	-	-	2,893,211
Other assets, net	-	47,250	-	47,250
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$4,120,230</u>	<u>\$1,279,114</u>	<u>\$ 167,150</u>	<u>\$5,566,494</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 38,419	\$ -	\$ -	\$ 38,419
Accrued wages and benefits	149,520	-	-	149,520
Unearned revenue	<u>10,550</u>	<u>-</u>	<u>-</u>	<u>10,550</u>
Total current liabilities	198,489	-	-	198,489
Net assets	<u>3,921,741</u>	<u>1,279,114</u>	<u>167,150</u>	<u>5,368,005</u>
Total liabilities and net assets	<u>\$4,120,230</u>	<u>\$1,279,114</u>	<u>\$ 167,150</u>	<u>\$5,566,494</u>

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

STARS NASHVILLE

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
School contract fees	\$ 1,383,007	\$ -	\$ -	\$1,383,007
Contributions	975,721	922,232	-	1,897,953
Grants	547,161	-	-	547,161
Special events	147,070	37,750	-	184,820
Program service fees and funding	118,842	-	-	118,842
Consulting income	91,591	-	-	91,591
Investment income - net	104,441	34,981	-	139,422
Miscellaneous	40,801	-	-	40,801
Net assets released from restrictions	<u>953,497</u>	<u>(953,497)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>4,362,131</u>	<u>41,466</u>	<u>-</u>	<u>4,403,597</u>
Expenses:				
Program services:				
Youth services	3,266,268	-	-	3,266,268
Supporting services:				
Fundraising	380,531	-	-	380,531
Management and general	<u>356,808</u>	<u>-</u>	<u>-</u>	<u>356,808</u>
Total expenses	<u>4,003,607</u>	<u>-</u>	<u>-</u>	<u>4,003,607</u>
Increase (decrease) in net assets	358,524	41,466	-	399,990
Net assets at beginning of year	<u>3,921,741</u>	<u>1,279,114</u>	<u>167,150</u>	<u>5,368,005</u>
Net assets at end of year	<u>\$ 4,280,265</u>	<u>\$1,320,580</u>	<u>\$ 167,150</u>	<u>\$5,767,995</u>

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

STARS NASHVILLE

Statements of Activities and Changes in Net Assets (Continued)

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
School contract fees	\$ 1,296,320	\$ -	\$ -	\$1,296,320
Contributions	411,861	918,207	-	1,330,068
Grants	645,276	-	-	645,276
Special events	262,335	35,000	-	297,335
Program service fees and funding	247,011	-	-	247,011
Consulting income	77,993	-	-	77,993
Investment income - net	14,463	418	-	14,881
Miscellaneous	40,985	-	-	40,985
Net assets released from restrictions	935,422	(935,422)	-	-
Total public support and revenue	<u>3,931,666</u>	<u>18,203</u>	<u>-</u>	<u>3,949,869</u>
Expenses:				
Program services:				
Youth services	3,201,454	-	-	3,201,454
Supporting services:				
Fundraising	463,235	-	-	463,235
Management and general	351,782	-	-	351,782
Total expenses	<u>4,016,471</u>	<u>-</u>	<u>-</u>	<u>4,016,471</u>
Increase (decrease) in net assets	(84,805)	18,203	-	(66,602)
Net assets at beginning of year	<u>4,006,546</u>	<u>1,260,911</u>	<u>167,150</u>	<u>5,434,607</u>
Net assets at end of year	<u>\$ 3,921,741</u>	<u>\$1,279,114</u>	<u>\$ 167,150</u>	<u>\$5,368,005</u>

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

STARS NASHVILLE**Statements of Functional Expenses****For the Year Ended June 30, 2017**

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Youth Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$2,937,809	\$ 201,482	\$ 226,629	\$ 3,365,920
Professional fees	45,410	43,700	40,684	129,794
Supplies	39,317	6,822	6,299	52,438
Telephone	16,309	1,264	3,198	20,771
Postage	566	1,898	653	3,117
Occupancy	60,330	5,037	8,986	74,353
Equipment rental and maintenance	(50)	-	6,162	6,112
Printing and publications	18,073	12,821	4,985	35,879
Travel, meetings, and conferences	54,056	6,981	1,861	62,898
Insurance	10,338	217	18,849	29,404
Membership dues and awards	480	582	3,989	5,051
Special events	-	72,520	-	72,520
National dues	-	-	5,000	5,000
Investment fees	-	-	13,604	13,604
Miscellaneous expense	<u>7,039</u>	<u>915</u>	<u>5,061</u>	<u>13,015</u>
 Total expenses before depreciation and amortization	 3,189,677	 354,239	 345,960	 3,889,876
 Depreciation of property and equipment and amortization of other assets	 <u>76,591</u>	 <u>26,292</u>	 <u>10,848</u>	 <u>113,731</u>
 Total expenses	 <u>\$3,266,268</u>	 <u>\$ 380,531</u>	 <u>\$ 356,808</u>	 <u>\$ 4,003,607</u>
 Percent of total expenses	 <u>82%</u>	 <u>9%</u>	 <u>9%</u>	 <u>100%</u>

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

STARS NASHVILLE

Statements of Functional Expenses (Continued)

For the Year Ended June 30, 2016

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Youth Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$2,856,825	\$ 194,273	\$ 247,493	\$3,298,591
Professional fees	28,177	32,140	27,790	88,107
Supplies	45,388	6,159	6,903	58,450
Telephone	15,019	1,215	4,444	20,678
Postage	820	1,776	579	3,175
Occupancy	57,216	3,867	7,211	68,294
Equipment rental and maintenance	-	-	6,109	6,109
Printing and publications	25,000	24,749	636	50,385
Travel, meetings, and conferences	77,131	4,646	5,329	87,106
Insurance	10,638	239	14,809	25,686
Membership dues and awards	2,685	852	3,422	6,959
Interest expense	-	-	32	32
Special events	-	167,848	-	167,848
National dues	-	-	5,000	5,000
Investment fees	-	-	6,799	6,799
Miscellaneous expense	<u>9,228</u>	<u>1,314</u>	<u>3,866</u>	<u>14,408</u>
 Total expenses before depreciation and amortization	 3,128,127	 439,078	 340,422	 3,907,627
 Depreciation of property and equipment and amortization of other assets	 <u>73,327</u>	 <u>24,157</u>	 <u>11,360</u>	 <u>108,844</u>
 Total expenses	 <u>\$3,201,454</u>	 <u>\$ 463,235</u>	 <u>\$ 351,782</u>	 <u>\$4,016,471</u>
 Percent of total expenses	 <u>80%</u>	 <u>11%</u>	 <u>9%</u>	 <u>100%</u>

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

STARS NASHVILLE**Statements of Cash Flows****For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating activities:		
Increase (decrease) in net assets	\$ 399,990	\$ (66,602)
Adjustment to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	92,731	87,844
Amortization	21,000	21,000
Net unrealized (gains) losses on investments	69,862	25,814
Net realized (gains) losses on investments	(173,801)	(5,203)
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give - Unrestricted	(5,000)	4,256
(Increase) decrease in unconditional promises to give - Restricted	30,840	2,714
(Increase) decrease in accounts receivable - Unrestricted	395	(22,311)
(Increase) decrease in accounts receivable - Restricted	2,915	(11,965)
(Increase) decrease in grants receivable	(5,229)	(9,608)
(Increase) decrease in prepaid expenses	653	(1,574)
Increase (decrease) in accounts payable	1,365	(17,755)
Increase (decrease) in accrued wages and benefits	24,099	(12,694)
Increase (decrease) in unearned revenue	(50)	(2,035)
Net cash provided by (used for) operating activities	<u>459,770</u>	<u>(8,119)</u>
Investing activities:		
Purchases of investments, net	(527,057)	(12,125)
Purchases of property and equipment	<u>(4,145)</u>	<u>(25,285)</u>
Net cash provided by (used for) investing activities	<u>(531,202)</u>	<u>(37,410)</u>
Financing activities:		
Repayment of capitalized lease	<u>-</u>	<u>(1,854)</u>
Net cash provided by (used for) financing activities	<u>-</u>	<u>(1,854)</u>
Decrease in cash and cash equivalents	(71,432)	(47,383)
Cash and cash equivalents at beginning of year	<u>425,871</u>	<u>473,254</u>
Cash and cash equivalents at end of year	<u>\$ 354,439</u>	<u>\$ 425,871</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 32</u>

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

STARS NASHVILLE

Notes to Financial Statements

June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

(a) Organization

STARS Nashville (the Organization) was established in 1984 as a nonprofit organization and exists to serve schools and communities in Middle Tennessee by providing prevention, intervention and treatment services that address bullying, substance abuse, violence, and social and emotional barriers to success. The Organization provides some services under the name Kids on the Block.

The Organization is listed on the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration's (SAMHSA) National Registry of Evidence-based Programs and Practices (NREPP).

(b) Accrual Basis

The financial statements of the Organization are prepared using the accrual basis of accounting, under which revenues are recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed.

(c) Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

(Continued)

Temporarily Restricted - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

(d) Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(e) Use of Estimates

Management of the Organization has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

(f) Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

(g) Fair Value Measurements

The Organization follows FASB ASC 820-10, *Fair Value Measurements*, with respect to its financial assets and liabilities. FASB ASC 820-10 defines fair value and establishes a framework for measuring fair value under generally accepted accounting principles. The current practice includes: (1) the definition of fair value, which focuses on an exit price rather than on entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions, and credit standing; and (3) the expanded disclosures about fair

(Continued)

value measurements. FASB ASC 820-10 does not require any new fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available; representing the Organization's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available. These inputs may be supported by little or no market activity.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash and cash equivalents, accounts and grants receivable, unconditional promises to give, investments, and other short-term assets and liabilities. For these financial instruments, carrying values

(Continued)

approximate fair value. There are no financial instruments categorized as Level 2 or Level 3.

(h) Investments

Investments consist of equity and mutual funds and are measured on a recurring basis at fair value at the reporting date using quoted prices in active markets for identical assets (Level 1). Unrealized gains and losses are recognized in the Statement of Activities and Changes in Net Assets. Gains and investment income whose restrictions are met in the same reporting period are shown as unrestricted support.

(i) Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

(j) Accounts Receivable and Unconditional Promises to Give

The Organization uses the allowance method to determine uncollectible accounts receivable and unconditional promises to give. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable and unconditional promises to give. There was no allowance for doubtful accounts at June 30, 2017 and 2016. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. Receivables and unconditional promises to give are charged against the allowance when management believes the collectability of the receivable is unlikely. For the years ended June 30, 2017 and 2016, there was no bad debt expense. Accounts receivable are considered delinquent after ninety days. Late fees and interest are not assessed on delinquent accounts. It is not the policy of the Organization to place a customer on non-accrual status. At June 30, 2017 and 2016, \$10,249 and \$0, respectively, of accounts receivable and unconditional promises to give are greater than ninety days old.

(k) Property and Equipment

The Organization's property consists of land, building, building improvements, furniture, fixtures, and equipment.

Property and equipment are recorded at cost, or at appraised value if donated. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets. The Organization capitalizes items that are greater than or equal to \$1,000 and expenses items under \$1,000. The Organization uses the direct expensing method to account for planned major maintenance activities.

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In accordance with FASB ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. No impairments have been recognized on any property at June 30, 2017 and 2016.

(l) Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Such temporarily restricted revenues totaled \$994,963 and \$953,625 during the years ended June 30, 2017 and 2016, respectively, and are included in temporarily restricted revenues on the Statement of Activities and Changes in Net Assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There was no permanently restricted revenue for the years ended June 30, 2017 and 2016.

(m) Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit under the Uniform Guidance and to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of grant or reductions of future grant funds. Based on prior experience, the Organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

(n) Unearned Revenue

The Organization receives advance funds under certain school contracts. The funds are recorded as unearned revenue until the services are

(Continued)

performed, at which time the Organization recognizes the funds as school contract fees.

(o) Income Taxes

The Organization has obtained a determination letter from the Internal Revenue Service effective July 1, 2000, which qualifies the Organization as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal or state income taxes. The Organization is not classified as a private foundation. Unrelated business taxable income generated by the Organization is primarily related to certain consulting and rental activities.

The Organization follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Organization follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, as it relates to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified in management and general expenses in the Organization's financial statements.

(p) Donated Services and Supplies

Certain contributed supplies and specialized services are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor. Volunteer services, which neither create nor enhance non-financial assets, or do not require specialized skills, are not recognized as support.

(q) Advertising

Advertising is expensed as incurred.

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(r) Compensated Absences

The Organization's employees are entitled to paid vacation, sick days, and personal days off, depending on job classification, length of service, and other factors. Vacation and personal days not taken by the end of our fiscal year are forfeited. It is impracticable for the Organization to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

(s) Subsequent Events

The Organization has evaluated subsequent events through January 12, 2018, the date the financial statements were available to be issued.

(2) Investments

Investments are stated at fair value (Level 1) and are summarized at June 30, 2017 and 2016 as follows:

2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Equity Funds	\$1,726,311	\$1,799,611	\$1,799,611
Mutual Funds	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,726,311</u>	<u>\$1,799,611</u>	<u>\$1,799,611</u>

2016:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Equity Funds	\$ 650,882	\$ 796,565	\$ 796,565
Mutual Funds	<u>374,571</u>	<u>372,050</u>	<u>372,050</u>
	<u>\$1,025,453</u>	<u>\$1,168,615</u>	<u>\$1,168,615</u>

The amounts invested, market value, and yields at June 30, 2017 and 2016 are summarized as follows:

(Continued)

	<u>2017</u>	<u>2016</u>
Fair value	\$1,799,611	\$1,168,615
Cost	<u>(1,726,311)</u>	<u>(1,025,453)</u>
Unrealized gain (loss)	<u>\$ 73,300</u>	<u>\$ 143,162</u>
Investment income	\$ 35,483	\$ 35,492
Net unrealized gain (loss) on investments	(69,862)	(25,814)
Net realized gain (loss) on sale of investments	<u>173,801</u>	<u>5,203</u>
Net investment income	<u>\$ 139,422</u>	<u>\$ 14,881</u>

The Organization recognized \$13,604 and \$6,799 of trust fee expenses related to the net investment income, that is included in management and general expenses, for the years ended June 30, 2017 and 2016, respectively.

(3) Unconditional Promises to Give

There are \$5,000 and \$0, respectively, of unconditional promises to give - unrestricted at June 30, 2017 and 2016. Unconditional promises to give - restricted, which are not funded until a subsequent year and are temporarily restricted for use during a subsequent year, at June 30, 2017 and 2016, represent pledges for donations or grants as follows:

	<u>2017</u>	<u>2016</u>
United Way Services	<u>\$ 776,149</u>	<u>\$ 806,989</u>
	<u>\$ 776,149</u>	<u>\$ 806,989</u>
Amounts due in:		
Less than one year	<u>\$ 776,149</u>	<u>\$ 806,989</u>

(4) Property and Equipment

At June 30, 2017 and 2016, the Organization's building, property, and equipment is recorded as follows:

(Continued)

	Useful Lives	2017	2016
	<u>(Years)</u>		
Land	-	\$ 335,000	\$ 335,000
Building and improvements	39	3,136,123	3,136,123
Furniture and equipment	2 - 7	<u>315,628</u>	<u>311,483</u>
		3,786,751	3,782,606
Less - Accumulated depreciation		<u>(982,126)</u>	<u>(889,395)</u>
		<u>\$2,804,625</u>	<u>\$2,893,211</u>

Depreciation expense for the years ended June 30, 2017 and 2016 totaled \$92,731 and \$87,844, respectively. Capitalized interest of \$98,342 is included in the building cost for the years ended June 30, 2017 and 2016.

(5) Other Assets

During 2009, the Organization purchased a golf club membership through donor gifts to assist the Organization with its annual fundraiser over the next ten years. A total membership cost of \$210,000 has been capitalized and is being amortized over a 10-year period. Amortization expense is being recorded using the straight-line method and totaled \$21,000 for the years ended June 30, 2017 and 2016. Estimated amortization expense for each of the next two fiscal years is as follows:

2018	\$21,000
2019	\$5,250

The Organization's future cash flows are not materially impacted by its ability to extend or renew the membership agreement. The membership agreement does not have renewal or extension terms.

(6) Pension Plan

The Organization has adopted a 401(k) profit sharing plan (the Plan), which covers employees who have completed 1,000 hours of service within twelve months of their commencement date, and employees vest immediately upon entering the Plan. The Organization makes matching safe-harbor contributions to each eligible and contributing participant in the amount of 100% of the first 3% of the participant's compensation, then 50% between 3% and 5% of the participant's compensation for the Plan year. The Organization can make discretionary contributions to the Plan. Total expenses for the Plan for the years ended June 30, 2017 and 2016 were approximately \$49,000, and are included in the Statement of Functional Expenses in personnel expense.

(Continued)

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
For use in the year ended June 30, 2018	\$ 934,354	\$ -
For use in the year ended June 30, 2017	-	929,396
Endowment income not appropriated	213,256	178,276
Specific programs	115,820	93,292
Membership rights, net of amortization	26,250	47,250
Building	<u>30,900</u>	<u>30,900</u>
	<u>\$1,320,580</u>	<u>\$1,279,114</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors at June 30, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Time restrictions	\$ 930,047	\$ 913,060
Membership rights	21,000	21,000
Specific programs	<u>2,450</u>	<u>1,362</u>
	<u>\$ 953,497</u>	<u>\$ 935,422</u>

(8) Permanently Restricted Net Assets

Net assets in the amount of \$167,150 at June 30, 2017 and 2016, are permanently restricted for an endowment fund. The interest is unrestricted but included in temporarily restricted net assets until appropriated.

The Organization's endowment consists of one fund established as a general endowment to support the mission of the Organization. There are no funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted

(Continued)

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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies - The Organization has adopted investment policies, approved by the Board of Directors, that attempt to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed so as not to expose the fund to unacceptable levels of risk.

Spending Policy - The Organization has adopted a spending policy allowing accumulated earnings, plus 5% of the principal amount, to be used each year for fixed operating costs. Approval from the Board of Directors is required before any endowment funds are withdrawn.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016 is as follows:

2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ -	\$167,150	\$ 167,150
Amounts not appropriated	<u>-</u>	<u>213,257</u>	<u>-</u>	<u>213,257</u>
Total funds	<u>\$ -</u>	<u>\$ 213,257</u>	<u>\$167,150</u>	<u>\$ 380,407</u>

(Continued)

2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ -	\$167,150	\$ 167,150
Amounts not appropriated	-	178,276	-	178,276
Total funds	<u>\$ -</u>	<u>\$ 178,276</u>	<u>\$167,150</u>	<u>\$ 345,426</u>

Changes in endowment net assets as of June 30, 2017 and 2016 are as follows:

2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 178,276	\$167,150	\$ 345,426
Investment income (loss)	-	63,299	-	63,299
Net appreciation (depreciation)	-	(28,318)	-	(28,318)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 213,257</u>	<u>\$167,150</u>	<u>\$ 380,407</u>

2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 177,858	\$167,150	\$ 345,008
Investment income (loss)	-	8,892	-	8,892
Net appreciation (depreciation)	-	(8,474)	-	(8,474)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 178,276</u>	<u>\$167,150</u>	<u>\$ 345,426</u>

(9) Leases

The Organization leases office space in the Youth Opportunity Center (YOC) to several unrelated non-profit organizations. The YOC was developed specifically to align existing youth initiatives, resources, and expertise to increase the operating efficiency of the partner agencies. The lease terms call for these organizations to reimburse the Organization for only the costs of operating and maintaining the leased portion of the building based on the occupied square footage. The costs do not include interest or depreciation, but do include a 10% administrative fee. Lease terms vary from six months to one year.

(Continued)

The Organization also bartered with two medical professionals for professional services in exchange for office space under one year lease agreements.

As a result of these arrangements, the Organization received \$39,871 and \$38,288, respectively, in June 2017 and 2016, which is included in miscellaneous income on the Statement of Activities and Changes in Net Assets.

The Organization leases office equipment under operating leases. Total lease expense incurred by the Organization was \$2,928 and \$2,196 for the years ended June 30, 2017 and 2016, respectively, and is included in equipment rental and maintenance on the Statement of Functional Expenses.

The future minimum lease payments required under these operating leases as of June 30, 2017 are as follows:

2018	\$ 2,928
2019	2,928
2020	2,928
2021	<u>732</u>
	<u>\$ 9,516</u>

(10) Income Taxes

The Organization recognizes the tax benefits of uncertain tax positions only where the position is “more likely than not” to be sustained assuming examination by tax authorities. Management has analyzed the Organization’s tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for the open tax years (years ended June 30, 2014 through 2016), or expected to be taken in the Organization’s tax return for the year ended June 30, 2017. The Organization identified its major tax jurisdictions as the U.S. Federal and the State of Tennessee. However, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions. The Organization is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change in the next twelve months.

The Organization is subject to taxes on its unrelated business income. At June 30, 2017 and 2016, the Organization had net operating loss carryforwards for tax purposes of approximately \$110,000 and \$116,000, respectively, for Federal and approximately \$21,000 and \$27,000, respectively, for State available to offset future unrelated business income. These carryforwards will begin to expire in 2026, if not previously utilized.

(Continued)

Although the Organization has generated net operating income from unrelated business income relating to its consulting activities, the deferred tax asset has been netted against a 100% valuation allowance since there is no indication of material future income at this time, as follows:

	<u>2017</u>	<u>2016</u>
Deferred tax asset:		
Net operating carryforwards - Federal	\$ 16,000	\$ 18,000
Net operating carryforwards - State	1,000	2,000
Valuation allowance	<u>(17,000)</u>	<u>(20,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

During the years ended June 30, 2017 and 2016, the Organization did not recognize any interest and penalties relating to taxes, nor were any accrued at June 30, 2017 and 2016. The valuation allowance changed by \$3,000 during the year ended June 30, 2017 and did not change during the year ended June 30, 2016.

(11) Related Party Transactions

The Organization paid annual dues of \$5,000 for the years ended June 30, 2017 and 2016 to Center for Youth Issues, Inc. (National), which is the Organization's national affiliate.

During the years ended June 30, 2017 and 2016, the Organization provided services to National totaling approximately \$2,000 and \$5,000, respectively.

(12) Section 125 Plan

The Organization has adopted a cafeteria plan (the Plan) under Section 125 of the Internal Revenue Code, allowing a choice between cash and certain qualified benefits. Benefits are entirely funded through employee pre-tax deductions and employer contributions used to purchase elected benefits. Benefit options under the Plan consist of medical and dental insurance, which are provided through insurance policies for employees who work at least thirty hours a week, and a flexible spending account.

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(13) Donated Services and Equipment

The Organization receives donated services from several unpaid volunteers assisting the Organization in various activities. No amounts have been recognized in the accompanying Statement of Activities and Changes in Net Assets because the criteria for recognition of such volunteer effort under FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

(14) Board Designated Restrictions

At June 30, 2017 and 2016, the Board has designated \$837,757 and \$394,633, respectively, of investments and cash and cash equivalents for the Building Reserve Fund, which is included in unrestricted net assets at June 30, 2017. At June 30, 2017, the Board has also designated \$50,000 of investments for operating funds for the year ended June 30, 2018, which is also included in unrestricted net assets.

(15) Concentrations of Credit Risk

A significant portion of the Organization's revenue is derived from individuals, organizations, schools, and foundations in middle Tennessee and grants from the State of Tennessee. The following organizations and one foundation contributed more than 10% of total public support and revenue during 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Williamson County Board of Education	12%	11%
Metropolitan Nashville Board of Education	11%	12%
Family Charitable Foundation	11%	1%
Tennessee Department of Mental Health	10%	10%

At June 30, 2017, three (3) organizations represent 85% of grants receivable, 98% of unconditional promises to give are due from four (4) local United Way organizations, and two (2) organizations represent 87% of accounts receivable.

At June 30, 2016, four (4) organizations represent 100% of grants receivable, 100% of unconditional promises to give are due from six (6) local United Way organizations, and two (2) organizations represent 75% of accounts receivable.

(Continued)

(16) Risk on Uninsured Cash

The standard FDIC insurance amount is \$250,000 per depositor, per insured bank; and therefore, amounts in excess of \$250,000 held by the Organization during the years ended June 30, 2017 and 2016 were uninsured and uncollateralized. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Organization's securities is covered by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors. SIPC coverage is limited to specified investor-owned securities (notes, bonds, mutual funds, investment company securities, and registered securities) held by an insolvent SIPC member at the time a supervising trustee is appointed. The SIPC also protects against unauthorized trading in the Organization's security account. SIPC coverage is limited to \$500,000 per customer, including \$250,000 for cash that is on deposit as the result of a security transaction. The SIPC protection does not insure against market risk.

(17) Recent Accounting Pronouncement

FASB issued Accounting Standards Update 2016-14 regarding the presentation of financial statements of not-for-profit entities. The accounting update reduces the present required three net asset classes to two and presents them as net assets without donor restrictions and net assets with donor restrictions. The standard also expands disclosures regarding restrictions imposed by donors; board designated restrictions; liquidity and expense categories. The accounting update is effective for fiscal years beginning after December 15, 2017, and will be applied on a retrospective basis.