

**STARS NASHVILLE**

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

**JUNE 30, 2019 AND 2018**

**STARS NASHVILLE**

**Table of Contents**

**June 30, 2019 and 2018**

Independent Auditor's Report .....	1
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	5
Statements of Functional Expenses .....	7
Statements of Cash Flows .....	9
Notes to Financial Statements .....	10

## **Independent Auditor's Report**

To the Board of Directors  
STARS Nashville  
Nashville, Tennessee

### ***Report on Financial Statements***

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, 2019 and 2018, 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

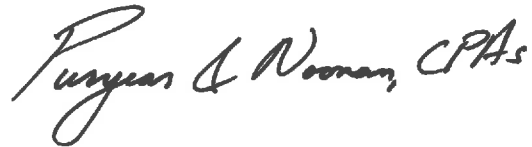
(Auditor's report continued on next page)

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, 2019 and 2018, 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 that reads "Puryear & Noonan, CPAs". The signature is written in a cursive, flowing style.

Puryear & Noonan, CPAs  
Nashville, Tennessee  
January 13, 2020

**STARS NASHVILLE**  
**Statements of Financial Position**  
**June 30, 2019**

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 7,082	\$ 193,624	\$ 200,706
Investments	1,538,997	255,611	1,794,608
Accounts receivable	210,235	-	210,235
Unconditional promises to give	-	675,897	675,897
Grants receivable	223,903	-	223,903
Prepaid expenses	<u>21,348</u>	<u>-</u>	<u>21,348</u>
<b>Total Current Assets</b>	2,001,565	1,125,132	3,126,697
Property and equipment, net	2,657,132	-	2,657,132
Investments	<u>-</u>	<u>167,150</u>	<u>167,150</u>
<b>Total Assets</b>	<b><u>\$ 4,658,697</u></b>	<b><u>\$ 1,292,282</u></b>	<b><u>\$5,950,979</u></b>
<b><u>Liabilities and Net Assets</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 62,675	\$ -	\$ 62,675
Accrued wages and benefits	220,738	-	220,738
Unearned revenue	<u>4,176</u>	<u>-</u>	<u>4,176</u>
<b>Total Current Liabilities</b>	<u>287,589</u>	<u>-</u>	<u>287,589</u>
<b>Net Assets</b>			
Without donor restrictions	3,384,544	-	3,384,544
Without donor restrictions - Board designated	986,564	-	986,564
With donor restrictions	<u>-</u>	<u>1,292,282</u>	<u>1,292,282</u>
<b>Total Net Assets</b>	<u>4,371,108</u>	<u>1,292,282</u>	<u>5,663,390</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 4,658,697</u></b>	<b><u>\$ 1,292,282</u></b>	<b><u>\$5,950,979</u></b>

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

**STARS NASHVILLE**  
**Statements of Financial Position (Continued)**  
**June 30, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 245,192	\$ 250,730	\$ 495,922
Investments	1,437,942	235,411	1,673,353
Accounts receivable	76,613	-	76,613
Unconditional promises to give	-	731,947	731,947
Grants receivable	136,840	-	136,840
Prepaid expenses	<u>21,271</u>	<u>-</u>	<u>21,271</u>
<b>Total Current Assets</b>	1,917,858	1,218,088	3,135,946
Property and equipment, net	2,717,059	-	2,717,059
Other assets, net	-	5,250	5,250
Investments	<u>-</u>	<u>167,150</u>	<u>167,150</u>
<b>Total Assets</b>	<u>\$ 4,634,917</u>	<u>\$ 1,390,488</u>	<u>\$6,025,405</u>
<b><u>Liabilities and Net Assets</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 76,040	\$ -	\$ 76,040
Accrued wages and benefits	180,859	-	180,859
Unearned revenue	<u>9,840</u>	<u>-</u>	<u>9,840</u>
<b>Total Current Liabilities</b>	<u>266,739</u>	<u>-</u>	<u>266,739</u>
<b>Net Assets</b>			
Without donor restrictions	3,430,017	-	3,430,017
Without donor restrictions - Board designated	938,161	-	938,161
With donor restrictions	<u>-</u>	<u>1,390,488</u>	<u>1,390,488</u>
<b>Total Net Assets</b>	<u>4,368,178</u>	<u>1,390,488</u>	<u>5,758,666</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 4,634,917</u>	<u>\$ 1,390,488</u>	<u>\$6,025,405</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, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
Special events income	\$ 200,409	\$ 23,163	\$ 223,572
Less - Special events direct costs	<u>(170,677)</u>	<u>-</u>	<u>(170,677)</u>
Net special events income	29,732	23,163	52,895
School contract fees	1,600,989	-	1,600,989
Contributions	398,311	797,707	1,196,018
Grants	775,346	-	775,346
Program service fees and funding	373,575	-	373,575
Consulting income	75,768	-	75,768
Investment income, net	78,961	20,200	99,161
Miscellaneous	39,739	-	39,739
Net assets released from restrictions	<u>939,276</u>	<u>(939,276)</u>	<u>-</u>
<b>Total Public Support and Revenue</b>	<u>4,311,697</u>	<u>(98,206)</u>	<u>4,213,491</u>
<b>Expenses</b>			
<b>Program Services</b>			
Youth services	3,651,269	-	3,651,269
<b>Supporting Services</b>			
Fundraising	302,326	-	302,326
Management and general	<u>355,172</u>	<u>-</u>	<u>355,172</u>
<b>Total Expenses</b>	<u>4,308,767</u>	<u>-</u>	<u>4,308,767</u>
 Change in Net Assets	 2,930	 (98,206)	 (95,276)
 Net Assets - Beginning of Year	 <u>4,368,178</u>	 <u>1,390,488</u>	 <u>5,758,666</u>
 Net Assets - End of Year	 <u>\$ 4,371,108</u>	 <u>\$ 1,292,282</u>	 <u>\$ 5,663,390</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, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
Special events income	\$ 136,112	\$ 5,000	\$ 141,112
Less - Special events direct costs	<u>(82,145)</u>	<u>-</u>	<u>(82,145)</u>
Net special events income	53,967	5,000	58,967
School contract fees	1,376,018	-	1,376,018
Contributions	557,248	862,107	1,419,355
Grants	648,854	-	648,854
Program service fees and funding	182,082	-	182,082
Consulting income	96,955	-	96,955
Investment income, net	82,734	22,154	104,888
Miscellaneous	40,229	-	40,229
Net assets released from restrictions	<u>986,503</u>	<u>(986,503)</u>	<u>-</u>
<b>Total Public Support and Revenue</b>	<u>4,024,590</u>	<u>(97,242)</u>	<u>3,927,348</u>
<b>Expenses</b>			
<b>Program Services</b>			
Youth services	3,310,577	-	3,310,577
<b>Supporting Services</b>			
Fundraising	290,384	-	290,384
Management and general	<u>335,716</u>	<u>-</u>	<u>335,716</u>
<b>Total Expenses</b>	<u>3,936,677</u>	<u>-</u>	<u>3,936,677</u>
 <b>Change in Net Assets</b>	 87,913	 (97,242)	 (9,329)
 <b>Net Assets - Beginning of Year</b>	 <u>4,280,265</u>	 <u>1,487,730</u>	 <u>5,767,995</u>
 <b>Net Assets - End of Year</b>	 <u>\$ 4,368,178</u>	 <u>\$ 1,390,488</u>	 <u>\$5,758,666</u>

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



**STARS NASHVILLE**  
**Statements of Functional Expenses**  
**For the Year Ended June 30, 2019**

	<b>Program Services</b>	<b>Supporting Services</b>		
	<b>Youth Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total</b>
Personnel expense	\$3,265,676	\$ 199,784	\$ 261,242	\$3,726,702
Professional fees	47,418	24,413	27,066	98,897
Supplies	37,619	3,038	1,201	41,858
Telephone	15,719	1,705	3,182	20,606
Postage	25	271	746	1,042
Occupancy	58,973	5,144	9,215	73,332
Equipment rental and maintenance	180	-	6,497	6,677
Printing and publications	43,071	45,953	1,328	90,352
Travel, meetings, and conferences	82,675	9,435	3,643	95,753
Insurance	13,788	376	16,470	30,634
Membership dues and awards	2,653	170	3,832	6,655
National dues	-	-	5,000	5,000
Miscellaneous expense	<u>8,045</u>	<u>1,682</u>	<u>4,406</u>	<u>14,133</u>
 Total expenses before depreciation and amortization	 3,575,842	 291,971	 343,828	 4,211,641
 Depreciation of property and equipment and amortization of other assets	 <u>75,427</u>	 <u>10,355</u>	 <u>11,344</u>	 <u>97,126</u>
 <b>Total Expenses</b>	 <u><b>\$3,651,269</b></u>	 <u><b>\$ 302,326</b></u>	 <u><b>\$ 355,172</b></u>	 <u><b>\$4,308,767</b></u>
 Percent of total expenses	 <u><b>85%</b></u>	 <u><b>7%</b></u>	 <u><b>8%</b></u>	 <u><b>100%</b></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, 2018**

	<b>Program Services</b>	<b>Supporting Services</b>		
	<b>Youth Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total</b>
Personnel expense	\$2,971,250	\$ 198,107	\$ 226,361	\$ 3,395,718
Professional fees	41,714	12,140	35,202	89,056
Supplies	38,506	5,634	3,191	47,331
Telephone	15,252	1,292	2,700	19,244
Postage	181	612	767	1,560
Occupancy	55,467	5,774	9,226	70,467
Equipment rental and maintenance	180	242	6,900	7,322
Printing and publications	25,561	32,118	736	58,415
Travel, meetings, and conferences	65,396	7,745	4,971	78,112
Insurance	14,285	313	14,594	29,192
Membership dues and awards	862	596	4,267	5,725
National dues	-	-	5,000	5,000
Miscellaneous expense	<u>7,927</u>	<u>1,392</u>	<u>6,548</u>	<u>15,867</u>
 Total expenses before depreciation and amortization	 3,236,581	 265,965	 320,463	 3,823,009
 Depreciation of property and equipment and amortization of other assets	 <u>73,996</u>	 <u>24,419</u>	 <u>15,253</u>	 <u>113,668</u>
 <b>Total Expenses</b>	 <b><u>\$3,310,577</u></b>	 <b><u>\$ 290,384</u></b>	 <b><u>\$ 335,716</u></b>	 <b><u>\$ 3,936,677</u></b>
 Percent of total expenses	 <u>84%</u>	 <u>7%</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, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Operating Activities</b>		
Change in net assets	\$ (95,276)	\$ (9,329)
<b>Adjustment to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities</b>		
Depreciation	91,876	92,668
Amortization	5,250	21,000
Net unrealized (gains) losses on investments	(58,349)	(60,350)
Net realized (gains) losses on investments	(4,577)	(14,784)
Changes in operating assets and liabilities		
(Increase) decrease in unconditional promises to give - Unrestricted	-	5,000
(Increase) decrease in unconditional promises to give - Restricted	56,050	44,202
(Increase) decrease in accounts receivable - Unrestricted	(133,622)	15,753
(Increase) decrease in accounts receivable - Restricted	-	9,050
(Increase) decrease in grants receivable	(87,063)	(34,145)
(Increase) decrease in prepaid expenses	(77)	442
Increase (decrease) in accounts payable	(13,365)	36,256
Increase (decrease) in accrued wages and benefits	39,879	7,240
Increase (decrease) in unearned revenue	<u>(5,664)</u>	<u>(660)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(204,938)</u>	<u>112,343</u>
<b>Cash Flows from Investing Activities</b>		
(Purchases) sales of investments, net	(58,329)	34,242
Purchases of property and equipment	<u>(31,949)</u>	<u>(5,102)</u>
<b>Net Cash Provided by (Used for) Investing Activities</b>	<u>(90,278)</u>	<u>29,140</u>
<b>Net Change in Cash</b>	(295,216)	141,483
<b>Cash - Beginning of Year</b>	<u>495,922</u>	<u>354,439</u>
<b>Cash - End of Year</b>	<u><u>\$ 200,706</u></u>	<u><u>\$ 495,922</u></u>

**Non-Cash Transactions**

During the year ended June 30, 2019, the Organization wrote-off \$23,982 of fully depreciated fixed assets.

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

---

**STARS Nashville**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

---

**Note 1 - Summary of Significant Accounting Policies**

***Organization and Purpose***

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).

The Organization is also licensed as an Alcohol and Drug Non-Residential Rehabilitation Treatment and Mental Health Outpatient Facility by the State of Tennessee Department of Mental Health and Substance Abuse Services.

On November 22, 2019, CARF International announced that STARS has been accredited for a period of three years. CARF is an independent, nonprofit accrediting body whose mission is to promote the quality, value, and optimal outcomes of services through a consultative accreditation process and continuous improvement services that center on enhancing the lives of the persons served.

***Basis of Accounting***

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.

***Financial Statement Presentation***

For financial statement presentation, the Organization reports its financial information according to two classes of net assets (net assets with and without restrictions) based on the existence or absence of donor-imposed restrictions.

***Net Assets Without Donor Restrictions***

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. Net assets without restrictions may be designated for specific purposes by action of the Board of Directors.

***Net Assets With Donor Restrictions***

Net assets subject to stipulations imposed by donors and grantors that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. Other donor restrictions are perpetual in nature whereby the donor has stipulated the funds be maintained in perpetuity.

***Measure of Operations***

The Statements of Activities and Changes in Net Assets report changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities and interest and investment income. Non-operating activities are limited to resources that generate return from other investments, permanently restricted contributions, net assets released for capital expenditures, and other activities considered to be of a more unusual or non-recurring nature.

***Program and Supporting Services - Functional Expenses***

The following program and supporting services are included in the accompanying financial statements on the Statements of Functional Expenses.

**Program services** - includes activities carried out to fulfill the Organization's mission resulting in student assistance services addressing youth mental health, social and emotional issues.

**Supporting services - Management and General** - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program, event or fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organizational oversight, business management, record keeping, budgeting, financing, and other administrative activities.

**Supporting Services - Fundraising** - includes cost of activities directed toward appeals for financial support and the cost of solicitations and creation and distribution of fundraising materials.

***Classifications of Expenses***

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Direct expenses, incurred for a single function, are allocated entirely to that function. Expenses applicable to more than one function, are allocated on the basis of time and effort, square footage or headcount. Personnel expense, travel, meetings and conferences are allocated based on time and effort. Professional fees, supplies, telephone and postage are allocated on headcount, while occupancy, insurance and depreciation are allocated based on square footage.

***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 (U.S. GAAP). Actual results could differ from these estimates.

***Cash Equivalents***

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

***Fair Value Measurements***

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820-10, *Fair Value Measurements*, with respect to its financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Organization groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are as follows:

**Level 1** - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

**Level 2** - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

**Level 3** - Unobservable inputs that cannot be corroborated by observable market data.

U.S. GAAP requires 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 approximate fair value. There are no financial instruments categorized as Level 2 or level 3.

***Investments Valuation***

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 Statements 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.

***Unconditional Promises to Give***

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

***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, 2019 and 2018. 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 collectibility of the receivable is unlikely. For the years ended June 30, 2019 and 2018, 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, 2019 and 2018, \$11,960 and \$0, respectively, of accounts receivable and unconditional promises to give are greater than ninety days old and are still considered fully collectible.

***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.

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, 2019 and 2018.

***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 net assets with donor restrictions depending on the nature of the restriction. Such donor restricted revenues totaled \$841,070 and \$889,261 during the years ended June 30, 2019 and 2018, respectively, and are included in revenue with donor restrictions on the Statements of Activities and Changes in Net Assets. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

***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 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.

***Unearned Revenue***

The Organization receives advance funds under certain school contracts. The funds are recorded as unearned revenue until the services are performed, at which time the Organization recognizes the funds as school contract fees.

***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.

***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.

In addition, for the year ended June 30, 2019, the Organization has received various in-kind contributions of food and media coverage for an annual fundraising event in the amount of approximately \$68,000 which is included in special events income and special events direct costs on the Statement of Activities and Changes in Net Assets.

***Advertising***

Advertising is expensed as incurred.

***Reclassifications***

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

***Subsequent Events***

The Organization has evaluated subsequent events through January 13, 2020, the date the financial statements were available to be issued.

**Note 2 - Adoption of New Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. There was no effect in change in the net assets as a result of this adoption.

**Note 3 - Liquidity and Availability**

	<u><b>2019</b></u>
Cash	\$ 200,706
Investments	1,794,608
Receivables	210,235
Unconditional promises to give	675,897
Grant receivables	<u>223,903</u>
	3,105,349
Less financial assets with donor restrictions, excluding time restrictions that expire in the next twelve months	<u>(301,012)</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 2,804,337</u></u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

**Note 4 - Investments**

Investments are stated at fair value (Level 1) and are summarized at June 30, 2019 and 2018 as follows:

2019

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Equity Funds	\$ 1,665,643	\$1,854,074	\$1,854,074
Mutual Funds	<u>104,116</u>	<u>107,684</u>	<u>107,684</u>
	<u><u>\$ 1,769,759</u></u>	<u><u>\$1,961,758</u></u>	<u><u>\$1,961,758</u></u>

2018

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Equity Funds	\$ 1,607,582	\$1,741,056	\$1,741,056
Mutual Funds	<u>99,271</u>	<u>99,447</u>	<u>99,447</u>
	<u><u>\$ 1,706,853</u></u>	<u><u>\$1,840,503</u></u>	<u><u>\$1,840,503</u></u>

The amounts invested, market value, and yields at June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Fair value	\$1,961,758	\$1,840,503
Cost	<u>(1,769,759)</u>	<u>(1,706,853)</u>
Unrealized gain	<u><u>\$ 191,999</u></u>	<u><u>\$ 133,650</u></u>
Investment income	\$ 51,713	\$ 46,277
Net unrealized gain (loss) on investments	58,349	60,350
Net realized gain (loss) on sale of investments	4,577	14,784
Investment income	<u>(15,478)</u>	<u>(16,523)</u>
Investment income	<u><u>\$ 99,161</u></u>	<u><u>\$ 104,888</u></u>

**Note 5 - Unconditional Promises to Give**

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, 2019 and 2018, represent pledges for donations or grants as follows:

	<u><b>2019</b></u>	<u><b>2018</b></u>
United Way Services	<u>\$ 675,897</u>	<u>\$ 731,947</u>
	<u><u>\$ 675,897</u></u>	<u><u>\$ 731,947</u></u>
Amounts due in Less than one year	<u><u>\$ 675,897</u></u>	<u><u>\$ 731,947</u></u>

**Note 6 - Property and Equipment**

At June 30, 2019 and 2018, the Organization's building, property, and equipment is recorded as follows:

	<u><b>Useful Lives (Years)</b></u>	<u><b>2019</b></u>	<u><b>2018</b></u>
Land	-	\$ 335,000	\$ 335,000
Building and improvements	39	3,163,041	3,136,123
Furniture and equipment	2 - 7	<u>301,778</u>	<u>320,729</u>
		3,799,819	3,791,852
Less - Accumulated depreciation		<u>(1,142,687)</u>	<u>(1,074,793)</u>
		<u><u>\$2,657,132</u></u>	<u><u>\$2,717,059</u></u>

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$91,876 and \$92,668, respectively.

**Note 7 - 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 \$5,250 and \$21,000 for the years ended June 30, 2019 and 2018, respectively.

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 and ended during the year ended June 30, 2019.

**Note 8 - 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, 2019 and 2018 were approximately \$50,000, and are included in the Statements of Functional Expenses in personnel expense.

**Note 9 - Net Assets With Donor Restrictions**

Net assets with donor restrictions as of June 30, 2019 and 2018 are available for the following purposes:

	<u><b>2019</b></u>	<u><b>2018</b></u>
For use in the year ended June 30, 2020	\$ 823,219	\$ -
For use in the year ended June 30, 2019	-	862,457
Endowment income not appropriated	255,611	235,411
Specific programs	38,320	85,320
Membership rights, net of amortization	-	5,250
Building	7,982	34,900
Endowment	<u>167,150</u>	<u>167,150</u>
	<u><b>\$1,292,282</b></u>	<u><b>\$1,390,488</b></u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors at June 30, 2019 and 2018 as follows:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Time restrictions	\$ 860,108	\$ 935,003
Membership rights	5,250	21,000
Specific programs	<u>73,918</u>	<u>30,500</u>
	<u><b>\$ 939,276</b></u>	<u><b>\$ 986,503</b></u>

#### **Note 10 - Endowment**

Net assets with donor restrictions in the amount of \$167,150 at June 30, 2019 and 2018, are restricted for an endowment fund. The interest is unrestricted but included in net assets with donor restrictions 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 endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with permanent restrictions (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 net assets with permanent restrictions is classified as net assets with temporary donor restrictions 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, 2019 and 2018 is as follows:

**2019**

	<u><b>Without Donor Restrictions</b></u>	<u><b>With Donor Restrictions</b></u>	<u><b>Total Net Endowment Assets</b></u>
Donor-restricted endowment funds	\$ -	\$ 167,150	\$ 167,150
Amounts not appropriated	<u>-</u>	<u>255,611</u>	<u>255,611</u>
Total funds	<u><u>\$ -</u></u>	<u><u>\$ 422,761</u></u>	<u><u>\$ 422,761</u></u>

**2018**

	<u><b>Without Donor Restrictions</b></u>	<u><b>With Donor Restrictions</b></u>	<u><b>Total Net Endowment Assets</b></u>
Donor-restricted endowment funds	\$ -	\$ 167,150	\$ 167,150
Amounts not appropriated	<u>-</u>	<u>235,411</u>	<u>235,411</u>
Total funds	<u><u>\$ -</u></u>	<u><u>\$ 402,561</u></u>	<u><u>\$ 402,561</u></u>

Changes in endowment net assets as of June 30, 2019 and 2018 are as follows:

**2019**

	<u><b>Without Donor Restrictions</b></u>	<u><b>With Donor Restrictions</b></u>	<u><b>Total Net Endowment Assets</b></u>
Endowment net assets, beginning of year	\$ -	\$ 402,561	\$ 402,561
Investment income (loss)	-	7,257	7,257
Net appreciation (depreciation)	<u>-</u>	<u>12,943</u>	<u>12,943</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ 422,761</u></u>	<u><u>\$ 422,761</u></u>

2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 380,407	\$ 380,407
Investment income (loss)	-	6,416	6,416
Net appreciation (depreciation)	-	15,738	15,738
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 402,561</u>	<u>\$ 402,561</u>

#### Note 11 - 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 month-to-month to one year.

As a result of these arrangements, the Organization received approximately \$40,000 in June 2019 and 2018, which is included in miscellaneous income on the Statements of Activities and Changes in Net Assets.

The Organization leases office equipment under operating leases. Total lease expense incurred by the Organization was approximately \$3,000 for the years ended June 30, 2019 and 2018, and is included in equipment rental and maintenance on the Statements of Functional Expenses.

The future minimum lease payments required under these operating leases as of June 30, 2019 are as follows:

2020	\$ 2,928
2021	<u>732</u>
	<u>\$ 3,660</u>



**Note 12 - 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, 2016 through 2018), or expected to be taken in the Organization’s tax return for the year ended June 30, 2019. 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, 2019 and 2018, the Organization had net operating loss carryforwards for tax purposes of approximately \$107,000 for Federal and approximately \$18,000 for State available to offset future unrelated business income. These carryforwards will begin to expire in 2026, if not previously utilized.

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>2019</u>	<u>2018</u>
Deferred tax asset:		
Net operating carryforwards - Federal	\$ 22,000	\$ 22,000
Net operating carryforwards - State	1,000	1,000
Valuation allowance	<u>(23,000)</u>	<u>(23,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

On December 22, 2017, new federal tax reform legislation was enacted in the United States, resulting in significant changes from previous tax law. The 2017 Tax Act establishes a flat federal corporate tax rate of 21% effective January 1, 2018.

During the years ended June 30, 2019 and 2018, the Organization did not recognize any interest and penalties relating to taxes, nor were any accrued at June 30, 2019 and 2018. The valuation allowance changed by \$0 and \$6,000 during the years ended June 30, 2019 and 2018, respectively.

**Note 13 - Related Party Transactions**

The Organization paid annual dues of \$5,000 for the years ended June 30, 2019 and 2018 to Center for Youth Issues, Inc. (National), which is the Organization's national affiliate.

**Note 14 - Section 125 Plan**

The Organization has adopted a cafeteria plan (the 125 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 125 Plan consist of medical and dental insurance, which are provided through insurance policies for employees who work at least thirty hours a week.

**Note 15 - Board Designated Restrictions**

At June 30, 2019 and 2018, the Board has designated \$964,064 and \$888,161, respectively, of investments and cash and cash equivalents for the Building Reserve Fund, which is included in net assets without donor restrictions. At June 30, 2019 and 2018, the Board has also designated \$22,500 and \$50,000, respectively, of investments for operating funds for the subsequent year, which is also included in unrestricted net assets.

**Note 16 - 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 contributed more than 10% of total public support and revenue during 2019 and 2018:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Williamson County Board of Education	15%	15%
Metropolitan Nashville Board of Education	12%	11%
Tennessee Department of Mental Health	14%	7%

At June 30, 2019, three (3) organizations represent 91% of grants receivable, 100% of unconditional promises to give are due from four (4) local United Way organizations, and one (1) organization represents 85% of accounts receivable.

At June 30, 2018, three (3) organizations represent 83% of grants receivable, 99% of unconditional promises to give are due from four (4) local United Way organizations, and two (2) organizations represent 65% of accounts receivable.

#### **Note 17 - 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, 2019 and 2018 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.

#### **Note 18 - Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-4, *Revenue from Contracts with Customers (Topic 606) – Deferral of Effective Date*, which deferred the effective date for one year. Accordingly, this ASU will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the effect the provisions of ASU 2014-09 will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*, which requires lessees to recognize assets and liabilities for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee is not expected to significantly change under such guidance. The standard, as amended, will be effective for annual reporting periods beginning after December 15, 2020. Accordingly, this ASU will be effective for the Organization for the year ending

June 30, 2022. The Organization is currently evaluating the impact that adoption of this ASU will have on the Organization's financial position and results of operations.

In June 2018, the FABS issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* which provides clarifying guidance on accounting for grants and contracts of nonprofit organizations as they relate to the new revenue standard (ASU 2014-09) and aims to minimize diversity in the classification of grants and contracts that exist under current guidance. The standard will be effective for annual reporting periods beginning after December 15, 2018. Accordingly, this ASU will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the impact that adoption of this ASU will have on the Organization's financial position and results of operations.