

**PRESTON TAYLOR MINISTRIES, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-11



Independent Auditors' Report

To the Board of Directors
Preston Taylor Ministries, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Preston Taylor Ministries, Inc. (a Tennessee not-for-profit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Preston Taylor Ministries, Inc. as of December 31, 2018 and 2017, 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.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Brentwood, Tennessee
July 1, 2019

PRESTON TAYLOR MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	ASSETS	
	2018	2017
Cash	\$ 466,992	\$ 541,237
Certificate of deposit	76,198	76,114
Investments	34,764	-
Prepaid expenses	3,187	11,635
Cash - designated for long term purposes	113,210	76,114
Property and equipment, net	<u>825,129</u>	<u>852,316</u>
TOTAL ASSETS	<u>\$ 1,519,480</u>	<u>\$ 1,557,416</u>
 LIABILITIES AND NET ASSETS 		
LIABILITIES		
Accounts payable	\$ 4,627	\$ -
Accrued payroll	20,624	7,520
Note payable	<u>154,681</u>	<u>163,376</u>
Total Liabilities	<u>179,932</u>	<u>170,896</u>
 NET ASSETS		
Without donor restrictions	1,228,673	1,331,920
With donor restrictions	<u>110,875</u>	<u>54,600</u>
Total Net Assets	<u>1,339,548</u>	<u>1,386,520</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,519,480</u>	<u>\$ 1,557,416</u>

The accompanying notes are an integral part of these financial statements.

PRESTON TAYLOR MINISTRIES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Changes in Net Assets Without Donor Restrictions		
Revenues:		
Contributions		
Individuals	\$ 652,022	\$ 544,004
Foundations/corporate	216,102	282,436
In-kind	108,229	96,803
Churches	89,419	121,527
Special events	62,406	84,364
T-shirt sales	940	390
Interest	4,008	3,104
Loss on disposal of property and equipment	<u>(2,184)</u>	<u>-</u>
Total revenues	1,130,942	1,132,628
Net assets released from restrictions	<u>84,382</u>	<u>112,965</u>
Total revenues and other support without donor restrictions	<u>1,215,324</u>	<u>1,245,593</u>
Expenses:		
Program services	1,087,806	946,627
Supporting services		
Management and general	105,713	155,193
Fundraising	<u>125,052</u>	<u>124,056</u>
Total expenses	<u>1,318,571</u>	<u>1,225,876</u>
(Decrease) increase in net assets without donor restrictions	<u>(103,247)</u>	<u>19,717</u>
Changes in Net Assets With Donor Restrictions		
Foundations/corporate contributions	94,750	54,600
Other contributions	45,907	48,615
Net assets released from restrictions	<u>(84,382)</u>	<u>(112,965)</u>
Increase (decrease) in net assets with donor restrictions	<u>56,275</u>	<u>(9,750)</u>
(DECREASE) INCREASE IN NET ASSETS	(46,972)	9,967
NET ASSETS - BEGINNING OF YEAR	<u>1,386,520</u>	<u>1,376,553</u>
NET ASSETS - END OF YEAR	<u>\$ 1,339,548</u>	<u>\$ 1,386,520</u>

The accompanying notes are an integral part of these financial statements.

PRESTON TAYLOR MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total
		Management and General	Fund- Raising	
Personnel	\$ 794,155	\$ 53,306	\$ 82,231	\$ 929,692
Programing supplies and fees	73,670	-	-	73,670
Facility rent	54,904	-	-	54,904
Depreciation	38,195	10,185	2,547	50,927
Outings and retreats	32,157	-	-	32,157
Facility maintenance	15,489	13,940	1,548	30,977
Transportation	28,539	-	-	28,539
Utilities and telephone	17,584	3,863	2,384	23,831
Special events	-	-	17,506	17,506
Insurance	10,754	2,689	-	13,443
Professional fees	-	12,286	-	12,286
Office supplies	4,686	5,340	1,042	11,068
Development	-	-	8,994	8,994
Interest	7,971	-	-	7,971
Travel, meals and meetings	6,489	721	-	7,210
Printing and postage	289	1,148	4,307	5,744
Bank merchant fees	-	499	4,493	4,992
Volunteer training/appreciation	2,731	-	-	2,731
Training	193	1,736	-	1,929
Total expenses	\$ 1,087,806	\$ 105,713	\$ 125,052	\$ 1,318,571

The accompanying notes are an integral part of these financial statements.

PRESTON TAYLOR MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total
		Management and General	Fund- Raising	
Personnel	\$ 695,888	\$ 107,229	\$ 86,101	\$ 889,218
Programing supplies and fees	66,806	-	-	66,806
Facility rent	54,064	-	-	54,064
Depreciation	34,331	9,155	2,289	45,775
Outings and retreats	26,097	-	-	26,097
Facility maintenance	4,203	3,783	420	8,406
Transportation	28,910	-	-	28,910
Utilities and telephone	14,936	3,610	2,062	20,608
Special events	-	-	12,274	12,274
Insurance	7,933	1,983	-	9,916
Professional fees	-	8,664	-	8,664
Office supplies	2,547	2,902	566	6,015
Development	-	-	11,473	11,473
Interest	-	8,395	-	8,395
Travel, meals and meetings	6,830	759	-	7,589
Printing and postage	594	2,365	8,871	11,830
Bank merchant fees	-	4,525	-	4,525
Volunteer training/appreciation	3,285	-	-	3,285
Training	203	1,823	-	2,026
Total expenses	\$ 946,627	\$ 155,193	\$ 124,056	\$ 1,225,876

The accompanying notes are an integral part of these financial statements.

PRESTON TAYLOR MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (46,972)	\$ 9,967
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation	50,927	45,775
Amortization of discount on note payable	7,971	8,395
Contribution of investments	(34,764)	-
In-kind contribution of property and equipment	(26,323)	(12,250)
Loss on disposal of property and equipment	2,184	-
Cash contributions for equipment	-	(28,235)
Decrease (increase) in prepaid expenses	8,448	(3,978)
Increase (decrease) in accounts payable	4,627	(5,100)
Increase in accrued payroll	13,104	-
	<u>(20,798)</u>	<u>14,574</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to certificate of deposit	(84)	(503)
Proceeds from the disposal of property and equipment	400	-
Payments for property and equipment	-	(45,192)
	<u>316</u>	<u>(45,695)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for purchase of equipment	-	28,235
Payments on note payable	(16,667)	(16,667)
	<u>(16,667)</u>	<u>11,568</u>
NET DECREASE IN CASH	(37,149)	(19,553)
CASH - BEGINNING OF YEAR	<u>617,351</u>	<u>636,904</u>
CASH - END OF YEAR	<u>\$ 580,202</u>	<u>\$ 617,351</u>
Reconciliation of cash to statements of financial position:		
Cash	\$ 466,992	\$ 541,237
Cash designated for long term purposes	113,210	76,114
	<u>\$ 580,202</u>	<u>\$ 617,351</u>

The accompanying notes are an integral part of these financial statements.

PRESTON TAYLOR MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - MINISTRY AND NATURE OF ACTIVITIES

Preston Taylor Ministries, Inc. (the "Ministry") is a Tennessee not-for-profit corporation that empowers Preston Taylor children and youth to discover and live their God-inspired dreams, develop a love for learning, and build joy-filled friendships that glorify Christ Jesus. The Ministry was founded in 1998 to confront many of the problems present in the Preston Taylor public housing area, problems like drug use, gang involvements, teenage pregnancy, illiteracy, poor school performance and crime. The Ministry is supported by grants and contributions from foundations, individuals, churches, and other ministries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Ministry have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which require the Ministry to report information regarding its financial position and activities according to the following net asset classifications:

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 Ministry. These net assets may be used at the discretion of the Ministry's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Ministry or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Certificate of Deposit

Cash includes checking and money market deposits held by financial institutions. The certificate of deposit has an original maturity date in excess of three months.

Property and Equipment and Depreciation

The Ministry follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$500. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the statements of activities for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the estimated useful life of the asset which ranges from two to 40 years and is computed on the straight-line method.

Investments

The Ministry's policy is to liquidate investments as soon as practical after the donation of investment securities is received. Occasionally, the Ministry will have equity investment securities on the statements of financial position that have not been liquidated at year end. These investments, if any, are stated in the aggregate at estimated fair market value based on Level 1 inputs which is valued by quoted market prices in active markets for identical assets.

PRESTON TAYLOR MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed Goods and Services

Various volunteers donate many hours to the Ministry's program services. These contributed services are only reflected in the financial statements when the services required specialized skills that would otherwise need to be purchased. Property, equipment, materials and other assets received as donations are recorded and reflected in the accompanying statements of financial position at their estimated fair values at the date of the receipt.

Income Taxes

The Ministry is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the tax laws of the state of Tennessee.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel	Time and effort
Depreciation	Facility square footage
Facility maintenance	Facility square footage
Utilities and telephone	Facility square footage and time and effort
Insurance	Time and effort
Office supplies	Time and effort
Travel, meals and meetings	Time and effort
Printing and postage	Time and effort
Bank merchant fees	Time and effort
Training	Time and effort

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 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 classification, 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 Ministry has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

PRESTON TAYLOR MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Ministry's financial assets at December 31:

	2018	2017
Financial assets at year end:		
Cash	\$ 580,202	\$ 617,351
Certificate of deposit	76,198	76,114
Investments	<u>34,764</u>	<u>-</u>
Total financial assets	691,164	693,465
Less amounts not available to be used within one year:		
Maintenance reserve	<u>113,210</u>	<u>76,114</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 577,954</u>	<u>\$ 617,351</u>

As part of its liquidity plan, the Ministry has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2018	2017
Land	\$ 142,290	\$ 142,290
Building and improvements	792,680	792,680
Transportation vehicles	83,835	61,232
Computers and software	43,772	45,168
Furniture and equipment	<u>31,079</u>	<u>35,572</u>
	1,093,656	1,076,942
Accumulated depreciation	<u>(268,527)</u>	<u>(224,626)</u>
	<u>\$ 825,129</u>	<u>\$ 852,316</u>

Depreciation expense was \$50,927 and \$45,775 for the years ended December 31, 2018 and 2017, respectively.

PRESTON TAYLOR MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 - NOTE PAYABLE - RELATED PARTY

In 2016, the Ministry entered into a \$250,000 note payable with a member of the board of directors that was used to purchase a facility for ministry use. The note calls for monthly payments of \$1,389 with a stated interest rate of zero percent and an imputed rate 5.0%. The note matures in July 2031. Interest expense related to the note payable totaled \$7,971 and \$8,395 for 2018 and 2017, respectively. The note is collateralized by the property which was purchased with the proceeds.

A schedule of expected future payments as of December 31, 2018 are as follows:

Year ending December 31,	
2019	\$ 16,667
2020	16,667
2021	16,667
2022	16,667
2023	16,667
Thereafter	<u>124,998</u>
Total payments	208,333
Less: interest imputed at 5.0%	(<u>53,652</u>)
	<u>\$ 154,681</u>

NOTE 6 - NET ASSETS

Net assets with donor restrictions totaled \$110,875 and \$54,600 as of December 31, 2018 and 2017, respectively. All of these net assets represent contributions received that are time or program restricted funds.

NOTE 7 - IN-KIND CONTRIBUTIONS

The following in-kind contributions have been included in revenues and assets/expenses in the financial statements for the years ended December 31:

	2018	2017
Expenses - facility rent	\$ 51,904	\$ 54,064
Expenses - community outreach supplies	30,000	30,000
Assets - property and equipment	26,325	12,250
Expenses - special events food	<u>-</u>	<u>489</u>
	<u>\$ 108,229</u>	<u>\$ 96,803</u>

NOTE 8 - LEASING ARRANGEMENTS

The Ministry provides programming at seven locations for which the ministry space is provided free of charge. In-kind contributions and rent expense has been recorded on the statements of activities for this rent (see Note 7). Six of the leases are informal arrangements that are recorded on a month-to-month basis. One of the leases contains a yearly renewal option that can be cancelled by either the lessor or lessee with a 60 day notice.

PRESTON TAYLOR MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 9 - CONCENTRATIONS

The Ministry has cash balances and a certificate of deposit in a bank in excess of amounts federally insured. The uninsured balances totaled approximately \$50,000 at December 31, 2018. The Ministry maintains its cash and certificate of deposit with high quality financial institutions which the Ministry believes limits these risks.

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The Ministry's adoption of the new standard in 2019 will require quantitative and qualitative financial statement disclosures regarding the Ministry's lease arrangements and balance sheet presentation of right of use assets and lease liabilities representative of the Ministry's discounted future lease payments. The Ministry is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.

In August 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 will result in treatment of most government grants as donor-restricted conditional contributions rather than exchange transactions and applies to all entities that make or receive contributions. The new standard also clarifies the criteria for evaluating whether contributions are unconditional or conditional. The Ministry does not expect the timing of grant or gift revenue recognition to change significantly as a result of this ASU. The Organization will implement ASU 2018-08 in fiscal 2020.

NOTE 11 - SUBSEQUENT EVENTS

The Ministry has evaluated subsequent events through July 1, 2019 which is the date the financial statements were available to be issued.