

**PRESTON TAYLOR MINISTRIES, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

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## 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, the "Ministry"), which comprise the statements of financial position as of December 31, 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.

### 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 of 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 Ministry'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 Ministry'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, 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.

*Blankenship CPA Group PLLC*  
August 16, 2018

**PRESTON TAYLOR MINISTRIES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<b>ASSETS</b>	
	<b>2017</b>	<b>2016</b>
Cash	\$ 617,351	\$ 636,904
Certificate of deposit	76,114	75,611
Prepaid expenses	11,635	7,657
Property and equipment, net	<u>852,316</u>	<u>840,649</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,557,416</u></b>	<b><u>\$ 1,560,821</u></b>
 <b>LIABILITIES AND NET ASSETS</b>  		
<b>LIABILITIES</b>		
Accounts payable	\$ 7,520	\$ 12,620
Note payable	<u>163,376</u>	<u>171,648</u>
Total Liabilities	<u>170,896</u>	<u>184,268</u>
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	1,242,552	1,222,835
Board designated - capital expenditures	<u>89,368</u>	<u>89,368</u>
Total Unrestricted	<u>1,331,920</u>	<u>1,312,203</u>
Temporarily restricted	<u>54,600</u>	<u>64,350</u>
Total Net Assets	<u>1,386,520</u>	<u>1,376,553</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,557,416</u></b>	<b><u>\$ 1,560,821</u></b>

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

**PRESTON TAYLOR MINISTRIES, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>Changes in Unrestricted Net Assets</b>		
Revenues:		
Contributions		
Individuals	\$ 544,004	\$ 486,337
Foundations/corporate	294,686	253,964
Churches	175,591	166,756
In-kind interest	-	74,368
Special events	84,853	66,871
T-shirt sales	390	306
Interest	3,104	1,823
	<u>1,102,628</u>	<u>1,050,425</u>
 Total Revenues	 1,102,628	 1,050,425
 Net assets released from restrictions	 <u>142,965</u>	 <u>327,314</u>
 Total Revenues and Reclassifications	 <u>1,245,593</u>	 <u>1,377,739</u>
 Functional Expenses:		
Program services	946,455	781,591
Supporting services		
Management and general	160,747	118,299
Fundraising	118,674	113,979
	<u>1,225,876</u>	<u>1,013,869</u>
 Total Functional Expenses	 1,225,876	 1,013,869
 Increase in Unrestricted Net Assets	 <u>19,717</u>	 <u>363,870</u>
 <b>Changes in Temporarily Restricted Net Assets</b>		
Foundations/corporate contributions	54,600	64,250
Other contributions	78,615	72,714
Net assets released from restrictions	<u>(142,965)</u>	<u>(327,314)</u>
 Decrease in Temporarily Restricted Net Assets	 <u>(9,750)</u>	 <u>(190,350)</u>
 INCREASE IN NET ASSETS	 9,967	 173,520
 NET ASSETS - BEGINNING OF YEAR	 <u>1,376,553</u>	 <u>1,203,033</u>
 NET ASSETS - END OF YEAR	 <u>\$ 1,386,520</u>	 <u>\$ 1,376,553</u>

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	\$ 692,182	\$ 106,658	\$ 85,643	\$ 884,483
Facility rent	54,064	-	-	54,064
Depreciation	34,331	9,155	2,289	45,775
Community outreach	32,093	-	-	32,093
Youth programming supplies	30,098	-	-	30,098
Transportation	28,910	-	-	28,910
Insurance	13,343	3,336	-	16,679
After school programming supplies	13,303	-	-	13,303
Special events	-	-	12,274	12,274
Intern programming supplies	9,057	2,264	-	11,321
Telephone	6,310	3,155	1,052	10,517
Development	-	-	10,474	10,474
Copier and printing	1,992	3,984	3,984	9,960
Camp	9,000	-	-	9,000
Interest	-	8,395	-	8,395
Facility maintenance	3,882	3,494	388	7,764
Professional fees	-	7,114	-	7,114
Utilities	5,317	665	665	6,647
Training	590	5,312	-	5,902
Volunteer training/appreciation	5,771	-	-	5,771
Bank merchant fees	-	4,524	-	4,524
Office supplies	1,889	2,152	420	4,461
Mentoring	4,147	-	-	4,147
Postage	94	374	1,403	1,871
Office equipment	82	165	82	329
<b>Total functional expenses</b>	<b>\$ 946,455</b>	<b>\$ 160,747</b>	<b>\$ 118,674</b>	<b>\$ 1,225,876</b>

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

**PRESTON TAYLOR MINISTRIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

	Program Services	Supporting Services		Total
		Management and General	Fund- Raising	
Personnel	\$ 557,155	\$ 70,812	\$ 79,076	\$ 707,043
Facility rent	44,564	-	-	44,564
Depreciation	29,761	3,720	3,720	37,201
Community outreach	33,646	-	-	33,646
Youth programming supplies	21,556	-	-	21,556
Transportation	20,985	3,935	1,312	26,232
Insurance	3,579	13,517	-	17,096
After school programming supplies	8,870	-	-	8,870
Special events	-	-	15,140	15,140
Intern programming supplies	11,583	3,861	-	15,444
Telephone	6,562	820	820	8,202
Development	-	-	7,245	7,245
Copier and printing	1,101	1,656	2,759	5,516
Camp	11,202	-	-	11,202
Interest	-	4,350	-	4,350
Facility maintenance	9,116	3,037	-	12,153
Professional fees	-	4,675	825	5,500
Utilities	5,675	709	710	7,094
Training	2,079	260	260	2,599
Volunteer training/appreciation	6,736	-	-	6,736
Bank merchant fees	-	2,879	-	2,879
Office supplies	2,433	2,433	539	5,405
Mentoring	3,632	-	-	3,632
Postage	-	279	1,573	1,852
Office equipment	1,356	1,356	-	2,712
<b>Total functional expenses</b>	<b>\$ 781,591</b>	<b>\$ 118,299</b>	<b>\$ 113,979</b>	<b>\$ 1,013,869</b>

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

**PRESTON TAYLOR MINISTRIES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 9,967	\$ 173,520
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	45,775	37,201
Amortization of discount on note payable	8,395	4,349
In-kind contribution of property and equipment	(12,250)	(26,695)
In-kind contribution of interest	-	(74,368)
Cash contributions for equipment	(28,235)	-
Increase in prepaid expenses	(3,978)	(189)
Decrease in grants receivable	-	8,290
(Decrease) increase in accounts payable	(5,100)	5,302
	<u>14,574</u>	<u>127,410</u>
Net Cash Provided By Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to certificate of deposit	(503)	(75,611)
Payments for property and equipment	(45,192)	(377,557)
	<u>(45,695)</u>	<u>(453,168)</u>
Net Cash Used In Investing Activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	-	250,000
Contributions restricted for purchase of equipment	28,235	-
Payments on note payable	(16,667)	(8,333)
	<u>11,568</u>	<u>241,667</u>
Net Cash Provided By Financing Activities		
 NET DECREASE IN CASH	 (19,553)	 (84,091)
CASH - BEGINNING OF YEAR	<u>636,904</u>	<u>720,995</u>
CASH - END OF YEAR	<u>\$ 617,351</u>	<u>\$ 636,904</u>

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



**PRESTON TAYLOR MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1 - ORGANIZATION 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 organizations.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Reclassifications

Certain reclassifications have been made to the 2016 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and the disclosures of commitments and contingencies. 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 unrestricted revenues 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 and changes in net assets 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 forty years and is computed on the straight-line method.

**PRESTON TAYLOR MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities and changes in net assets as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. There were no permanently restricted net assets at December 31, 2017 and 2016.

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.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31:

	<b>2017</b>	<b>2016</b>
Land	\$ 142,290	\$ 142,290
Building and improvements	792,680	792,680
Transportation vehicles	61,232	57,233
Computers and software	45,168	44,056
Furniture and equipment	<u>35,572</u>	<u>24,379</u>
	1,076,942	1,060,638
Accumulated depreciation	<u>(224,626)</u>	<u>(219,989)</u>
	<u>\$ 852,316</u>	<u>\$ 840,649</u>

Depreciation expense was \$45,775 and \$37,201 for the years ended December 31, 2017 and 2016, respectively.

**PRESTON TAYLOR MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 4 - NOTE PAYABLE – RELATED PARTY**

During 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 with a maturity date of July 2031. An interest rate of 5.0% was imputed to the loan resulting in an implied in-kind contribution of interest totaling \$74,368 for 2016. Interest expense related to the note payable totaled \$8,395 and \$4,350 for 2017 and 2016, respectively. The note is collateralized by the property which was purchased with the proceeds.

A schedule of expected future payments as of December 31, 2017 are as follows:

Year ending December 31,

2018	\$ 16,667
2019	16,667
2020	16,667
2021	16,667
2022	16,667
Thereafter	<u>141,665</u>
Total payments	225,000
Less: interest imputed at 5.0%	<u>( 61,624)</u>
	<u>\$ 163,376</u>

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets totaled \$54,600 and \$64,350 as of December 31, 2017 and 2016, respectively. All of these net assets represent contributions received that are time restricted programming funds.

**NOTE 6 - IN-KIND CONTRIBUTIONS**

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

	<b>2017</b>	<b>2016</b>
Expenses - facility rent	\$ 54,064	\$ 44,564
Expenses - community outreach supplies	30,000	30,118
Assets - property and equipment	12,250	26,695
Expenses - special events food	489	-
Discount on note payable (Note 4)	-	74,368
Expenses - supplies	-	1,647
Expenses - professional fees	-	<u>1,000</u>
	<u>\$ 96,803</u>	<u>\$ 178,392</u>

**PRESTON TAYLOR MINISTRIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 7 - 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 and changes in net assets and the statements of functional expenses for this rent (see Note 6). 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.

**NOTE 8 - 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 \$166,000 at December 31, 2017 (\$212,000 at December 31, 2016). The Ministry maintains its cash and certificate of deposit with high quality financial institutions which the Ministry believes limits these risks.

**NOTE 9 - EVALUATION OF SUBSEQUENT EVENTS**

The Ministry has evaluated subsequent events through August 16, 2018 which is the date the financial statements were available to be issued.

**NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS**

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, that is intended to improve financial reporting relating to liquidity, financial performance and cash flows.

More specifically, the changes affect net asset classifications by reflecting two classifications of net assets, one “without donor-imposed restrictions” and one “with donor-imposed restrictions,” which differ from the traditional classifications of unrestricted, temporarily restricted, and permanently restricted. In addition, reporting of expenses by both natural and functional classification is required and investment returns must be reflected net of related investment expenses. The cash flow statement is also allowed to be restructured by using the direct method of reporting and there are further disclosures regarding an organization’s liquidity.

The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Ministry is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.