

**YOUTH ENCOURAGEMENT SERVICES**

**FINANCIAL STATEMENTS**

**December 31, 2013 and 2012**

# YOUTH ENCOURAGEMENT SERVICES

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors of  
Youth Encouragement Services  
Nashville, Tennessee

We have audited the accompanying financial statements of Youth Encouragement Services (a nonprofit organization), which comprise the statements of financial position as December 31, 2013 and 2012, and 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.

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

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

### **Basis for Qualified Opinion**

As more fully described in Note 2 to the financial statements, certain land and buildings are stated at estimated appraisal value as of December 31, 1994 in the accompanying statements of financial position. Also, depreciation expense has not been recorded for all years in which the buildings have been in service. In our opinion, such assets should be stated at acquisition cost, net of depreciation on buildings, to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practices are not reasonably determinable.

### **Qualified Opinion**

In our opinion, except for the effects of valuing land and buildings at appraisal value, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Youth Encouragement Services as of December 31, 2013 and 2012, 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.

*Frasier, Dean & Howard, PLLC*

April 4, 2014

**YOUTH ENCOURAGEMENT SERVICES**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2013 and 2012**

|                                       | <b>2013</b>              | <b>2012</b>              |
|---------------------------------------|--------------------------|--------------------------|
| <b>Assets</b>                         |                          |                          |
| Current assets:                       |                          |                          |
| Cash and cash equivalents             | \$ 132,242               | \$ 116,233               |
| Investments                           | 71,614                   | 95,970                   |
| Contributions receivable              | 10,000                   | -                        |
| Accounts receivable                   | -                        | 3,907                    |
| Prepaid expenses                      | 1,369                    | -                        |
| Total current assets                  | <u>215,225</u>           | <u>216,110</u>           |
| Property and equipment, net:          |                          |                          |
| Land                                  | 106,236                  | 106,236                  |
| Land improvements                     | 20,471                   | 20,471                   |
| Buildings                             | 615,738                  | 605,663                  |
| Furniture, fixtures and equipment     | 98,373                   | 107,222                  |
| Vehicles                              | 174,161                  | 174,161                  |
|                                       | <u>1,014,979</u>         | <u>1,013,753</u>         |
| Less accumulated depreciation         | <u>(563,659)</u>         | <u>(545,437)</u>         |
| Property and equipment, net           | <u>451,320</u>           | <u>468,316</u>           |
| Total assets                          | <u><u>\$ 666,545</u></u> | <u><u>\$ 684,426</u></u> |
| <b>Liabilities and Net Assets</b>     |                          |                          |
| Current liabilities:                  |                          |                          |
| Accounts payable and accrued expenses | \$ 3,747                 | \$ 13,836                |
| Line of credit                        | 5,992                    | -                        |
| Total current liabilities             | <u>9,739</u>             | <u>13,836</u>            |
| Line of credit                        | <u>-</u>                 | <u>54,000</u>            |
| Total liabilities                     | <u>9,739</u>             | <u>67,836</u>            |
| Net assets:                           |                          |                          |
| Unrestricted                          | 493,210                  | 465,910                  |
| Temporarily restricted                | 53,596                   | 40,680                   |
| Permanently restricted                | 110,000                  | 110,000                  |
| Total net assets                      | <u>656,806</u>           | <u>616,590</u>           |
| Total liabilities and net assets      | <u><u>\$ 666,545</u></u> | <u><u>\$ 684,426</u></u> |

See accompanying notes to the financial statements.

**YOUTH ENCOURAGEMENT SERVICES**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2013**

|                                       | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Public support and revenues:          |                     |                                   |                                   |                   |
| Public support:                       |                     |                                   |                                   |                   |
| Foundation and corporate support      | \$ 112,335          | \$ 113,300                        | \$ -                              | \$ 225,635        |
| Individual support                    | 193,247             | 1,045                             | -                                 | 194,292           |
| Fundraising revenue                   | 161,822             | -                                 | -                                 | 161,822           |
| Bequests                              | 83,540              | -                                 | -                                 | 83,540            |
| In-kind donations                     | 65,110              | -                                 | -                                 | 65,110            |
| Congregational support                | 50,898              | -                                 | -                                 | 50,898            |
| Registration fees                     | 2,486               | -                                 | -                                 | 2,486             |
| Government grant                      | 969                 | -                                 | -                                 | 969               |
| Total public support                  | <u>670,407</u>      | <u>114,345</u>                    | <u>-</u>                          | <u>784,752</u>    |
| Revenues:                             |                     |                                   |                                   |                   |
| Miscellaneous income                  | 810                 | -                                 | -                                 | 810               |
| Investment loss                       | <u>(11,975)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(11,975)</u>   |
| Total revenues                        | <u>(11,165)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(11,165)</u>   |
| Net assets released from restrictions | <u>101,429</u>      | <u>(101,429)</u>                  | <u>-</u>                          | <u>-</u>          |
| Total public support and revenues     | <u>760,671</u>      | <u>12,916</u>                     | <u>-</u>                          | <u>773,587</u>    |
| Expenses:                             |                     |                                   |                                   |                   |
| Program services                      | 525,757             | -                                 | -                                 | 525,757           |
| Management and general                | 122,865             | -                                 | -                                 | 122,865           |
| Fundraising                           | <u>84,749</u>       | <u>-</u>                          | <u>-</u>                          | <u>84,749</u>     |
| Total expenses                        | <u>733,371</u>      | <u>-</u>                          | <u>-</u>                          | <u>733,371</u>    |
| Change in net assets                  | 27,300              | 12,916                            | -                                 | 40,216            |
| Net assets at beginning of year       | <u>465,910</u>      | <u>40,680</u>                     | <u>110,000</u>                    | <u>616,590</u>    |
| Net assets at end of year             | <u>\$ 493,210</u>   | <u>\$ 53,596</u>                  | <u>\$ 110,000</u>                 | <u>\$ 656,806</u> |

See accompanying notes to the financial statements.

**YOUTH ENCOURAGEMENT SERVICES**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2012**

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Public support and revenues:               |                     |                                   |                                   |                   |
| Public support:                            |                     |                                   |                                   |                   |
| Individual support                         | \$ 238,487          | \$ -                              | \$ -                              | \$ 238,487        |
| Fundraising revenue                        | 133,990             | -                                 | -                                 | 133,990           |
| Foundation and corporate support           | 51,880              | 51,140                            | -                                 | 103,020           |
| In-kind donations                          | 62,293              | -                                 | -                                 | 62,293            |
| Congregational support                     | 34,671              | -                                 | -                                 | 34,671            |
| Government grant                           | 14,131              | -                                 | -                                 | 14,131            |
| Registration fees                          | 2,184               | -                                 | -                                 | 2,184             |
| Bequests                                   | 268                 | -                                 | -                                 | 268               |
| Total public support                       | <u>537,904</u>      | <u>51,140</u>                     | <u>-</u>                          | <u>589,044</u>    |
| Revenues:                                  |                     |                                   |                                   |                   |
| Investment income                          | 4,563               | -                                 | -                                 | 4,563             |
| Miscellaneous income                       | 898                 | -                                 | -                                 | 898               |
| Interest income                            | 92                  | -                                 | -                                 | 92                |
| Loss on disposal of property and equipment | <u>(2,325)</u>      | <u>-</u>                          | <u>-</u>                          | <u>(2,325)</u>    |
| Total revenues                             | <u>3,228</u>        | <u>-</u>                          | <u>-</u>                          | <u>3,228</u>      |
| Net assets released from restrictions      | <u>97,227</u>       | <u>(97,227)</u>                   | <u>-</u>                          | <u>-</u>          |
| Total public support and revenues          | <u>638,359</u>      | <u>(46,087)</u>                   | <u>-</u>                          | <u>592,272</u>    |
| Expenses:                                  |                     |                                   |                                   |                   |
| Program services                           | 576,754             | -                                 | -                                 | 576,754           |
| Management and general                     | 115,424             | -                                 | -                                 | 115,424           |
| Fundraising                                | 73,113              | -                                 | -                                 | 73,113            |
| Total expenses                             | <u>765,291</u>      | <u>-</u>                          | <u>-</u>                          | <u>765,291</u>    |
| Change in net assets                       | (126,932)           | (46,087)                          | -                                 | (173,019)         |
| Net assets at beginning of year            | <u>592,842</u>      | <u>86,767</u>                     | <u>110,000</u>                    | <u>789,609</u>    |
| Net assets at end of year                  | <u>\$ 465,910</u>   | <u>\$ 40,680</u>                  | <u>\$ 110,000</u>                 | <u>\$ 616,590</u> |

See accompanying notes to the financial statements.

**YOUTH ENCOURAGEMENT SERVICES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2013**

|                                 | <b>Inner<br/>City<br/>Centers</b> | <b>Camp</b>      | <b>Total<br/>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Fundraising</b> | <b>Total<br/>Supporting<br/>Services</b> | <b>Grand<br/>Total</b> |
|---------------------------------|-----------------------------------|------------------|---------------------------------------|---------------------------------------|--------------------|--|------------------------|
| Salaries and wages              | \$ 144,228                        | \$ 5,254         | \$ 149,482                            | \$ 32,009                             | \$ 15,005          | \$ 47,014                                | \$ 196,496             |
| Housing allowance               | 90,811                            | -                | 90,811                                | 19,328                                | 9,061              | 28,389                                   | 119,200                |
| Christmas store                 |                                   |                  |                                       |                                       |                    |  |                        |
| (including \$60,380 in-kind)    | 60,380                            | -                | 60,380                                | 5,171                                 | 29                 | 5,200                                    | 65,580                 |
| Professional services           | 23,003                            | -                | 23,003                                | 6,488                                 | 24,000             | 30,488                                   | 53,491                 |
| Insurance                       | 38,592                            | -                | 38,592                                | 11,053                                | -                  | 11,053                                   | 49,645                 |
| Fundraising activities          |                                   |                  |                                       |                                       |                    |  |                        |
| (including \$4,730 in-kind)     | -                                 | -                | -                                     | -                                     | 32,673             | 32,673                                   | 32,673                 |
| Depreciation                    | 24,870                            | -                | 24,870                                | 7,014                                 | -                  | 7,014                                    | 31,884                 |
| Utilities                       | 25,126                            | -                | 25,126                                | 4,012                                 | -                  | 4,012                                    | 29,138                 |
| Travel, meals and entertainment | 22,398                            | -                | 22,398                                | 2,957                                 | 198                | 3,155                                    | 25,553                 |
| Bus and van                     | 20,086                            | -                | 20,086                                | 1,510                                 | -                  | 1,510                                    | 21,596                 |
| Scholarships and awards         | 20,053                            | -                | 20,053                                | -                                     | -                  | -  | 20,053                 |
| Miscellaneous                   | 7,499                             | -                | 7,499                                 | 5,644                                 | 60                 | 5,704                                    | 13,203                 |
| Supplies                        | 4,444                             | -                | 4,444                                 | 8,362                                 | -                  | 8,362                                    | 12,806                 |
| Repairs and maintenance         | 10,567                            | -                | 10,567                                | 2,217                                 | -                  | 2,217                                    | 12,784                 |
| Printing and publications       | -                                 | -                | -                                     | 11,940                                | 271                | 12,211                                   | 12,211                 |
| Payroll taxes                   | 10,073                            | -                | 10,073                                | 973                                   | 669                | 1,642                                    | 11,715                 |
| Honor roll trip                 | 7,440                             | -                | 7,440                                 | 401                                   | -                  | 401                                      | 7,841                  |
| Camp                            | -                                 | 5,549            | 5,549                                 | -                                     | -                  | -  | 5,549                  |
| Postage                         | 52                                | -                | 52                                    | 1,664                                 | 2,783              | 4,447                                    | 4,499                  |
| Program materials               | 3,386                             | -                | 3,386                                 | 636                                   | -                  | 636                                      | 4,022                  |
| Basketball program              | 1,856                             | -                | 1,856                                 | -                                     | -                  | -  | 1,856                  |
| Dues and subscriptions          | 90                                | -                | 90                                    | 792                                   | -                  | 792                                      | 882                    |
| Interest                        | -                                 | -                | -                                     | 694                                   | -                  | 694                                      | 694                    |
| Total                           | <u>\$ 514,954</u>                 | <u>\$ 10,803</u> | <u>\$ 525,757</u>                     | <u>\$ 122,865</u>                     | <u>\$ 84,749</u>   | <u>\$ 207,614</u>                        | <u>\$ 733,371</u>      |

See accompanying notes to the financial statements.



**YOUTH ENCOURAGEMENT SERVICES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2012**

|                                 | <b>Inner<br/>City<br/>Centers</b> | <b>Camp</b>      | <b>Total<br/>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Fundraising</b> | <b>Total<br/>Supporting<br/>Services</b> | <b>Grand<br/>Total</b> |
|---------------------------------|-----------------------------------|------------------|---------------------------------------|---------------------------------------|--------------------|--|------------------------|
| Salaries and wages              | \$ 173,895                        | \$ 3,125         | \$ 177,020                            | \$ 29,106                             | \$ 13,363          | \$ 42,469                                | \$ 219,489             |
| Housing allowance               | 84,061                            | -                | 84,061                                | 19,328                                | 9,061              | 28,389                                   | 112,450                |
| Christmas store                 |                                   |                  |                                       |                                       |                    |  |                        |
| (including \$59,740 in-kind)    | 60,564                            | -                | 60,564                                | 758                                   | -                  | 758                                      | 61,322                 |
| Insurance                       | 42,856                            | -                | 42,856                                | 11,292                                | -                  | 11,292                                   | 54,148                 |
| Professional services           | 22,116                            | -                | 22,116                                | 6,238                                 | 24,000             | 30,238                                   | 52,354                 |
| Utilities                       | 38,018                            | -                | 38,018                                | 9,752                                 | -                  | 9,752                                    | 47,770                 |
| Depreciation                    | 30,330                            | -                | 30,330                                | 8,555                                 | -                  | 8,555                                    | 38,885                 |
| Fundraising activities          | -                                 | -                | -                                     | -                                     | 24,857             | 24,857                                   | 24,857                 |
| Bus and van                     | 19,959                            | -                | 19,959                                | 2,186                                 | -                  | 2,186                                    | 22,145                 |
| Travel, meals and entertainment | 17,516                            | -                | 17,516                                | 138                                   | -                  | 138                                      | 17,654                 |
| Miscellaneous                   | 7,818                             | -                | 7,818                                 | 8,903                                 | -                  | 8,903                                    | 16,721                 |
| Scholarships and awards         | 15,000                            | -                | 15,000                                | 1,250                                 | -                  | 1,250                                    | 16,250                 |
| Supplies                        |                                   |                  |                                       |                                       |                    |  |                        |
| (including \$2,553 in-kind)     | 7,756                             | -                | 7,756                                 | 8,295                                 | -                  | 8,295                                    | 16,051                 |
| Payroll taxes                   | 12,069                            | -                | 12,069                                | 1,437                                 | 674                | 2,111                                    | 14,180                 |
| Repairs and maintenance         | 12,623                            | -                | 12,623                                | -                                     | -                  | -  | 12,623                 |
| Camp                            | -                                 | 7,779            | 7,779                                 | -                                     | -                  | -  | 7,779                  |
| Basketball program              | 7,677                             | -                | 7,677                                 | -                                     | -                  | -  | 7,677                  |
| Honor roll trip                 | 7,491                             | -                | 7,491                                 | -                                     | -                  | -  | 7,491                  |
| Printing and publications       | -                                 | 958              | 958                                   | 3,521                                 | 538                | 4,059                                    | 5,017                  |
| Program materials               | 4,456                             | -                | 4,456                                 | 462                                   | -                  | 462                                      | 4,918                  |
| Postage                         | -                                 | 617              | 617                                   | 2,714                                 | 620                | 3,334                                    | 3,951                  |
| Interest                        | -                                 | -                | -                                     | 839                                   | -                  | 839                                      | 839                    |
| Dues and subscriptions          | 70                                | -                | 70                                    | 650                                   | -                  | 650                                      | 720                    |
| Total                           | <u>\$ 564,275</u>                 | <u>\$ 12,479</u> | <u>\$ 576,754</u>                     | <u>\$ 115,424</u>                     | <u>\$ 73,113</u>   | <u>\$ 188,537</u>                        | <u>\$ 765,291</u>      |

See accompanying notes to the financial statements.

**YOUTH ENCOURAGEMENT SERVICES**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2013 and 2012**

|   | <u>2013</u>       | <u>2012</u>       |
|---|-------------------|-------------------|
| Cash flows from operating activities:   |                   |                   |
| Change in net assets  | \$ 40,216         | \$ (173,019)      |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities: |                   |                   |
| Depreciation  | 31,884            | 38,885            |
| Net loss on disposal of property and equipment  | -                 | 2,325             |
| Net loss (gain) on investments  | 11,975            | (4,563)           |
| Donated investments   | (7,678)           | (3,617)           |
| Changes in operating assets and liabilities:  |                   |                   |
| Contributions receivable  | (10,000)          | -                 |
| Accounts receivable   | 3,907             | (3,776)           |
| Prepaid expenses  | (1,369)           | -                 |
| Accounts payable and accrued expenses   | (10,089)          | (1,462)           |
| Net cash provided by (used in) operating activities   | <u>58,846</u>     | <u>(145,227)</u>  |
| Cash flows from investing activities:   |                   |                   |
| Proceeds from sale of investments   | 46,737            | 38,848            |
| Purchase of investments   | (26,678)          | (1,383)           |
| Proceeds from sale of property and equipment  | -                 | 500               |
| Purchases of property and equipment   | (14,888)          | (31,617)          |
| Net cash provided by investing activities   | <u>5,171</u>      | <u>6,348</u>      |
| Cash flows from financing activities:   |                   |                   |
| Proceeds from borrowings on line of credit  | -                 | 54,000            |
| Payments on line of credit  | (48,008)          | -                 |
| Net cash (used in) provided by financing activities   | <u>(48,008)</u>   | <u>54,000</u>     |
| Increase (decrease) in cash and cash equivalents  | 16,009            | (84,879)          |
| Cash and cash equivalents at beginning of year  | <u>116,233</u>    | <u>201,112</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 132,242</u> | <u>\$ 116,233</u> |
| Supplemental disclosure of cash flow information:   |                   |                   |
| Interest paid   | <u>\$ 694</u>     | <u>\$ 839</u>     |

See accompanying notes to the financial statements.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**NOTE 1 – NATURE OF OPERATIONS**

Youth Encouragement Services (the “Organization”) was incorporated as a nonprofit entity for the purpose of providing programs for the benefit of inner city children. The Organization is funded primarily through contributions from corporations, individuals and churches.

Program Services:

Inner City Centers

Three centers are available on a daily basis to inner city children. The three locations are designed to provide a safe place for informal play, relaxation, and performance of school work. Tutoring programs are available every Thursday evening to help students with reading, math, English, cooking and computer skills. Parenting skills and adult literacy programs are also provided. A basketball league is provided for young people ages nine to eighteen.

Camp

A summer camp is provided for inner city youth at the Organization’s Dividing Ridge Camp location in Robertson County, Tennessee.

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

**Basis of Presentation**

In accordance with the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations 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 for unrestricted purposes.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support and shown as increases in the respective net asset class.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured.

**Investments**

Investments in money market funds and marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position. See further discussion of fair value measurements in Note 3.

Investment income and unrealized gains and losses are reported as changes in unrestricted net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

**Property and Equipment**

Land and buildings amounting to \$91,211 and \$180,412, respectively, are recorded at estimated appraised value as of December 31, 1994. Property and equipment acquired subsequent to December 31, 1994 are recorded at acquisition cost. Depreciation of property and equipment has been provided since June 30, 1990, over the estimated useful lives of the respective assets primarily on a straight-line basis.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Donated Materials, Services and Assets**

The following donations are reflected as contributions in the accompanying statements at their estimated values at date of receipt for the years ended December 31:

|                        | <u><b>2013</b></u>      | <u><b>2012</b></u>      |
|------------------------|-------------------------|-------------------------|
| Christmas store        | \$ 60,380               | \$ 59,740               |
| Fundraising activities | 4,730                   | -                       |
| Program supplies       | <u>-</u>                | <u>2,553</u>            |
|                        | <u><b>\$ 65,110</b></u> | <u><b>\$ 62,293</b></u> |

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. The Organization estimates receipt of approximately 9,100 and 7,100 volunteer hours for the years ended December 31, 2013 and 2012, respectively. However, these services do not meet the requirements above and have not been recorded in the accompanying financial statements.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Income Taxes**

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes (Continued)**

The Organization follows FASB ASC guidance related to unrecognized tax benefits which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2010 through 2013.

**Revenue Recognition**

Cash contributions are recognized as revenue when received.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Grant funds are earned and reported as revenues of the applicable grant when the Organization has incurred expenses in compliance with specific restrictions of the grant agreement. Expenses incurred for grant funds which have not been received are reported as grants receivable.

**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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of public support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising**

Advertising costs are expensed as incurred. There was no advertising expense for the years ended December 31, 2013 and 2012.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based upon management's estimate among the programs and supporting services benefited.

**Restricted Endowment Funds**

The Uniform Prudent Management Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

**Subsequent Events**

The Organization evaluated subsequent events through April 4, 2014, when these financial statements were available to be issued. The Organization's management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

**NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS**

The Organization has adopted the fair value measurement guidelines of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1     Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)**

- Level 2 Inputs to the valuation methodology include the following:
- quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. A description of the valuation methodologies used for assets measured at fair value is as follows:

*Mutual Funds:* Valued at the net asset value ("NAV") of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

|                              | <b>2013</b>           |                       |                       |                     |
|------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
|                              | <b><u>Level 1</u></b> | <b><u>Level 2</u></b> | <b><u>Level 3</u></b> | <b><u>Total</u></b> |
| Mutual funds:                |                       |                       |                       |                     |
| Diversified emerging markets | \$ 51,922             | \$ -                  | \$ -                  | \$ 51,922           |
| World allocation             | 15,714                | -                     | -                     | 15,714              |
| Equity precious metals       | <u>3,978</u>          | <u>\$ -</u>           | <u>-</u>              | <u>3,978</u>        |
| Total assets at fair value   | <u>\$ 71,614</u>      | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ 71,614</u>    |



**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)**

|                              | <b>2012</b>           |                       |                       |                     |
|------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
|                              | <b><u>Level 1</u></b> | <b><u>Level 2</u></b> | <b><u>Level 3</u></b> | <b><u>Total</u></b> |
| Mutual funds:                |                       |                       |                       |                     |
| Diversified emerging markets | \$ 47,188             | \$ -                  | \$ -                  | \$ 47,188           |
| Equity precious metals       | 33,404                | -                     | -                     | 33,404              |
| Multicurrency                | <u>15,378</u>         | <u>-</u>              | <u>-</u>              | <u>15,378</u>       |
| Total assets at fair value   | <u>\$ 95,970</u>      | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ 95,970</u>    |

The following schedule summarizes the investment income gain (loss) in the statements of activities for the years ended December 31:

|                                | <b><u>2013</u></b> | <b><u>2012</u></b> |
|--------------------------------|--------------------|--------------------|
| Interest and dividend income   | \$ -               | \$ 92              |
| Net (loss) gain on investments | <u>(11,975)</u>    | <u>4,563</u>       |
|                                | <u>\$ (11,975)</u> | <u>\$ 4,655</u>    |

**NOTE 4 – LINE OF CREDIT**

During 2012, the Organization entered into a \$100,000 line of credit agreement with a bank. The line bears interest at the prime interest rate as published by the Wall Street Journal plus 1% (currently 4.25%), is secured by cash and other accounts of the Organization, and matured February 2013. During 2013, the Organization renewed the line of credit agreement under the same terms with a maturity in May 2014. Amounts outstanding under this line of credit totaled \$5,992 and \$54,000 at December 31, 2013 and 2012, respectively.

**NOTE 5 – NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of December 31:

|                     | <b><u>2013</u></b> | <b><u>2012</u></b> |
|---------------------|--------------------|--------------------|
| Afterschool program | \$ 30,200          | \$ 39,865          |
| Capital campaign    | 23,396             | -                  |
| Scholarship         | <u>-</u>           | <u>815</u>         |
|                     | <u>\$ 53,596</u>   | <u>\$ 40,680</u>   |

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 5 – NET ASSETS (Continued)**

Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. A summary of the permanently restricted net assets as of December 31 is as follows:

|                                 | <u>2013</u>       | <u>2012</u>       |
|---------------------------------|-------------------|-------------------|
| General Endowment Fund          | \$ 105,000        | \$ 105,000        |
| Ardell Whitehead Endowment Fund | <u>5,000</u>      | <u>5,000</u>      |
|                                 | <u>\$ 110,000</u> | <u>\$ 110,000</u> |

The interest earned on permanently restricted net assets is available to the Organization on an unrestricted basis.

The Organization's endowment consists of donor restricted gifts held primarily in investment accounts. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

**Changes in Endowment Net Assets for the fiscal year ended December 31, 2013:**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets,<br>beginning of year    | \$ 4,139            | \$ -                              | \$ 110,000                        | \$ 114,139        |
| Investment return:                            |                     |                                   |                                   |                   |
| Net appreciation (realized<br>and unrealized) | <u>(11,052)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(11,052)</u>   |
| Endowment net assets,<br>end of year          | <u>\$ (6,913)</u>   | <u>\$ -</u>                       | <u>\$ 110,000</u>                 | <u>\$ 103,087</u> |

**Changes in Endowment Net Assets for the fiscal year ended December 31, 2012:**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets,<br>beginning of year    | \$ (726)            | \$ -                              | \$ 110,000                        | \$ 109,274        |
| Investment return:                            |                     |                                   |                                   |                   |
| Net appreciation (realized<br>and unrealized) | <u>4,865</u>        | <u>-</u>                          | <u>-</u>                          | <u>4,865</u>      |
| Endowment net assets,<br>end of year          | <u>\$ 4,139</u>     | <u>\$ -</u>                       | <u>\$ 110,000</u>                 | <u>\$ 114,139</u> |

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 5 – NET ASSETS (Continued)**

**Interpretation of Relevant Law**

The Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature totaled \$6,913 as of December 31, 2013. There were no deficiencies of this nature as of December 31, 2012.

**Endowment Investment Policy and Risk Parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

Under the Organization's policy, as approved by the Board of Directors, endowment assets are invested primarily in equity securities.

**Strategies Employed for Achieving Investment Objectives**

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**YOUTH ENCOURAGEMENT SERVICES**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013 and 2012**

**NOTE 5 – NET ASSETS (Continued)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Organization has a policy of appropriating dividend and interest income from the endowment fund as necessary to fund Organization programs provided the investment balance is greater than the original gift value. Specific agreements with donors for income taken relative to their specific endowment gifts are exempted.

**NOTE 6 – GOVERNMENT GRANT**

During 2012, the Organization was awarded a grant totaling \$15,100 from the Metropolitan Government of Nashville and Davidson County with a grant term of July 1, 2012 through June 30, 2013. In conjunction with this grant \$969 and \$14,131 is included as grant revenue in the accompanying 2013 and 2012 statements of activities, respectively. Accounts receivable related to this grant totaled \$3,776 at December 31, 2012.

**NOTE 7 – RISKS, UNCERTAINTIES AND OTHER CONSIDERATIONS**

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

**NOTE 8 – CONCENTRATIONS**

During 2013, the Organization received one bequest totaling \$83,106 representing approximately 11% of total public support and revenues.