

PAUL ANDERSON YOUTH HOME, INC.
AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees and Officers
Paul Anderson Youth Home, Inc.
Vidalia, Georgia

We have audited the accompanying consolidated financial statements of the Paul Anderson Youth Home, Inc. (a nonprofit organization) and affiliate, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Paul Anderson Youth Home, Inc. and affiliate as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Serotta Maddocks Evans & Co." in a cursive script.

SEROTTA MADDOCKS EVANS & CO., CPAS

Augusta, Georgia
June 18, 2019

PAUL ANDERSON YOUTH HOME, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 271,686	\$ 155,767
Contributions in transit	1,956	65,106
Other assets	<u>5,630</u>	<u>6,305</u>
Total Current Assets	<u>279,272</u>	<u>227,178</u>
NONCURRENT ASSETS		
Cash and cash equivalents, restricted for long-term purposes	94,354	233,275
Marketable securities, restricted for long-term purposes	60,623	60,829
Property and equipment, net	<u>2,115,745</u>	<u>2,215,223</u>
Total Noncurrent Assets	<u>2,270,722</u>	<u>2,509,327</u>
Total Assets	<u><u>\$ 2,549,994</u></u>	<u><u>\$ 2,736,505</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 75,221	\$ 61,499
Line of credit	74,149	124,649
Note payable	<u>5,000</u>	<u>13,000</u>
Total Current Liabilities	<u>154,370</u>	<u>199,148</u>
NET ASSETS		
Net assets without donor restrictions	2,054,654	2,098,694
Net assets with donor restrictions	<u>340,970</u>	<u>438,663</u>
Total Net Assets	<u>2,395,624</u>	<u>2,537,357</u>
Total Liabilities and Net Assets	<u><u>\$ 2,549,994</u></u>	<u><u>\$ 2,736,505</u></u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAUL ANDERSON YOUTH HOME, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 838,682	\$ 219,910	\$ 1,058,592
Family Strong Center	948	-	948
Fund raising activities	318,718	-	318,718
Net realized and unrealized loss on marketable securities	-	(206)	(206)
Investment income	88	2,318	2,406
Parental assistance	648,675	-	648,675
Other	45,104	-	45,104
Net assets released from restriction	319,715	(319,715)	-
	<u>2,171,930</u>	<u>(97,693)</u>	<u>2,074,237</u>
Expenses and Losses			
Program services	1,536,160	-	1,536,160
Management and general	409,937	-	409,937
Fund raising activities	269,873	-	269,873
	<u>2,215,970</u>	<u>-</u>	<u>2,215,970</u>
Change in net assets	(44,040)	(97,693)	(141,733)
Net assets, beginning of year	<u>2,098,694</u>	<u>438,663</u>	<u>2,537,357</u>
Net assets, end of year	<u><u>\$ 2,054,654</u></u>	<u><u>\$ 340,970</u></u>	<u><u>\$ 2,395,624</u></u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAUL ANDERSON YOUTH HOME, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 1,012,711	\$ 162,125	\$ 1,174,836
Family Strong Center	9,942	-	9,942
Fund raising activities	342,734	-	342,734
Net realized and unrealized gain on marketable securities	-	12,062	12,062
Investment income	74	529	603
Parental assistance	508,625	-	508,625
Other	48,226	-	48,226
Net assets released from restriction	158,718	(158,718)	-
	<u>2,081,030</u>	<u>15,998</u>	<u>2,097,028</u>
Expenses			
Program services	1,609,480	-	1,609,480
Management and general	288,979	-	288,979
Fund raising activities	306,739	-	306,739
Loss on the disposal of investment property	80,000	-	80,000
	<u>2,285,198</u>	<u>-</u>	<u>2,285,198</u>
Change in net assets	(204,168)	15,998	(188,170)
Net assets, beginning of year	<u>2,302,862</u>	<u>422,665</u>	<u>2,725,527</u>
Net assets, end of year	<u><u>\$ 2,098,694</u></u>	<u><u>\$ 438,663</u></u>	<u><u>\$ 2,537,357</u></u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAUL ANDERSON YOUTH HOME, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		
	Youth Home and School	Management and General	Fund Raising	Total
Salaries	\$ 886,895	\$ 231,375	\$ 113,922	\$ 1,232,192
Fringe benefits	46,273	13,893	1,844	62,010
Payroll taxes	65,892	15,887	8,515	90,294
Total compensation and benefits	<u>999,060</u>	<u>261,155</u>	<u>124,281</u>	<u>1,384,496</u>
Automobile	10,677	93	1,030	11,800
Bank charges	-	236	-	236
Clothing and personal	2,833	-	-	2,833
Computer	-	32,994	-	32,994
Continuing education	3,908	-	-	3,908
Contract labor	495	30,281	-	30,776
Depreciation	143,673	-	-	143,673
Dues and fees	6,862	2,621	7,045	16,528
Equipment	1,230	-	-	1,230
Food	81,155	1,847	9,807	92,809
Gifts	3,619	-	12,292	15,911
Graduation	787	-	-	787
Insurance	70,950	5,518	-	76,468
Interest	138	16,917	-	17,055
Marketing	25,862	-	23,584	49,446
Medical	1,824	-	-	1,824
Miscellaneous	1,672	-	514	2,186
Outreach	232	-	-	232
Postage and freight	-	2,472	4,776	7,248
Printing	824	1,181	5,536	7,541
Professional fees	48,051	20,662	66,199	134,912
Rental	5,534	1,527	-	7,061
Repairs and maintenance	20,116	12,127	-	32,243
Staff development	13,039	10,442	-	23,481
Supplies	36,185	4,421	9,409	50,015
Telephone	10,581	-	-	10,581
Travel	1,265	901	5,400	7,566
Utilities	45,588	4,542	-	50,130
	<u>537,100</u>	<u>148,782</u>	<u>145,592</u>	<u>831,474</u>
	<u>\$ 1,536,160</u>	<u>\$ 409,937</u>	<u>\$ 269,873</u>	<u>\$ 2,215,970</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAUL ANDERSON YOUTH HOME, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		
	Youth Home and School	Management and General	Fund Raising	Total
Salaries	\$ 912,114	\$ 126,709	\$ 193,756	\$ 1,232,579
Fringe benefits	53,456	9,026	2,469	64,951
Payroll taxes	59,799	16,698	13,572	90,069
Total compensation and benefits	<u>1,025,369</u>	<u>152,433</u>	<u>209,797</u>	<u>1,387,599</u>
Automobile	11,456	38	1,122	12,616
Bank charges	-	330	-	330
Clothing and personal	2,912	-	-	2,912
Computer	4,124	29,744	-	33,868
Continuing education	7,464	-	-	7,464
Contract labor	17,549	11,231	-	28,780
Depreciation	149,472	-	-	149,472
Dues and fees	5,878	483	7,072	13,433
Equipment	847	-	-	847
Food	83,277	2,706	11,033	97,016
Gifts	3,791	-	10,519	14,310
Graduation	1,105	-	-	1,105
Insurance	64,164	4,220	-	68,384
Interest	283	12,924	-	13,207
Loss on disposal of fixed assets	-	7,043	-	7,043
Marketing	29,624	1,737	21,625	52,986
Medical	1,230	-	-	1,230
Miscellaneous	12,698	212	1,551	14,461
Outreach	666	-	-	666
Postage and freight	-	2,580	5,114	7,694
Printing	825	985	4,843	6,653
Professional fees	39,557	21,316	21,049	81,922
Rental	4,219	1,516	-	5,735
Repairs and maintenance	25,379	13,859	-	39,238
Staff development	12,980	9,534	-	22,514
Supplies	39,300	5,602	8,359	53,261
Telephone	11,712	-	-	11,712
Travel	2,425	2,374	4,655	9,454
Utilities	51,174	8,112	-	59,286
	<u>584,111</u>	<u>136,546</u>	<u>96,942</u>	<u>817,599</u>
	<u>\$ 1,609,480</u>	<u>\$ 288,979</u>	<u>\$ 306,739</u>	<u>\$ 2,205,198</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAUL ANDERSON YOUTH HOME, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (141,733)	\$ (188,170)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
Realized/unrealized (gain) loss on marketable securities	206	(12,062)
Loss on the disposal of investment property	-	80,000
Loss on the disposal of fixed assets	632	7,044
Depreciation	143,673	149,472
Donations of property and equipment	(1,464)	(44,507)
Changes in:		
Contributions in transit	63,150	(34,195)
Contributions receivable	-	8,475
Other assets	675	1,092
Accounts payable and accrued expenses	13,722	(8,279)
Net cash provided by (used in) operating activities	78,861	(41,130)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(43,363)	(67,848)
Net cash used in investing activities	(43,363)	(67,848)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) on line of credit	(50,500)	101,999
Payments on note payable	(8,000)	(12,000)
Net cash provided by (used in) financing activities	(58,500)	89,999
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(23,002)	(18,979)
Cash, Cash Equivalents and Restricted Cash at the Beginning of the Year	389,042	408,021
Cash, Cash Equivalents and Restricted Cash at the End of the Year	<u>\$ 366,040</u>	<u>\$ 389,042</u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

Cash and cash equivalents	\$ 271,686	\$ 155,767
Restricted cash	94,354	233,275
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 366,040</u>	<u>\$ 389,042</u>
Supplemental cash disclosure:		
Cash used for interest	\$ 17,055	\$ 13,207

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAUL ANDERSON YOUTH HOME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION - The Paul Anderson Youth Home (the “Youth Home”) is a residential home located in Vidalia, Georgia providing Christian rehabilitation for young men, predominantly from the Southeastern United States, seeking an alternative to incarceration. Continuing the mission set by Paul Anderson and his wife, Glenda, in 1961, the Youth Home seeks to teach young men that they are created by God and have a special purpose in life. We believe that young men with self-confidence and Christian character will become "givers" rather than "takers", assets rather than liabilities. The Youth Home also provides help for parents of troubled teenagers, through resources, counseling, and referrals.

The Youth Home’s unique program is designed to develop each young man spiritually, mentally, physically, emotionally, and socially. The daily curriculum combines Biblical teaching and academic training in our accredited high school, incorporating physical fitness, emotional development, and social awareness, while instilling a strong work ethic. The Youth Home’s staff provides over 300 combined years of experience ministering to and counseling young men and their families.

The Youth Home specializes in character building, which is evident in our over 90% success rate for those young men who graduate from the program. The low recidivism rate of Youth Home alumni is attributed to our unique program as well as continued support from the Youth Home after graduation.

The Youth Home is a Christian charity. To ensure the Youth Home’s Christian foundation is not jeopardized, neither local, state, nor federal funds are accepted. We depend on the support of individuals, corporations, organizations, churches, and foundations who partner with the Youth Home to provide a second chance for the young men and their families who are entrusted to this ministry. To support the Youth Home you can donate online, make purchases from our product lines, select from our planned giving opportunities, participate in our fundraisers, such as the annual Golf Classic, Bike Ride and Christmas Play or partner in prayer.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Youth Home and the Paul Anderson Family Strong Center, Inc. (the “Center”, a nonprofit organization). The Center was formed in May 2015 to provide outpatient services including counseling for individuals, couples, groups and families, while specializing in many areas such as play and art therapy, addiction, ADHD, anger management, depression, divorce, parenting, anxiety, trauma, and abuse. The Center is consolidated since the Youth Home has both an economic interest in the Center and control of the Center through the appointment of its governing board. All material intra-entity transactions have been eliminated.

BASIS OF ACCOUNTING - The consolidated financial statements of the Youth Home are prepared on the accrual basis of accounting and, accordingly, reflect all significant payables and other liabilities.

PAUL ANDERSON YOUTH HOME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

BASIS OF PRESENTATION - The Youth Home prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Under GAAP the Youth Home is required to report information regarding its financial position and activities to two classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations restricted for specific purpose or time periods. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

USE OF ESTIMATES - The preparation of consolidated financial statements in accordance with GAAP requires management of the Youth Home 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS - For purposes of the consolidated statement of cash flows, the Youth Home considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISK - The Youth Home maintains cash balances at several financial institutions located in the United States of America. These accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At December 31, 2018 and 2017, the Youth Home's uninsured cash balances totaled approximately \$135,000 and zero, respectively.

MARKETABLE SECURITIES - The Youth Home carries investments in both debt and equity securities at their fair values. Securities donated to the Youth Home are stated at fair value at the date of donation. Unrealized gains or losses resulting from changes in fair values are included with realized gains or losses in the consolidated financial statements and are included in the change in net assets.

PROPERTY AND EQUIPMENT - Property and equipment purchased by the Youth Home is stated at cost. Property and equipment donated to the Youth Home is stated at fair value at the date of donation. Depreciation is reported on property and equipment used in the operations of the Youth Home. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	5 - 20
Buildings and improvements	5 - 40
Furniture, equipment and vehicles	3 - 10

PAUL ANDERSON YOUTH HOME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

INCOME TAX STATUS - The Youth Home is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Paul Anderson Family Strong Center is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes are reflected in the accompanying consolidated financial statements.

GAAP requires management to evaluate tax positions taken by the Youth Home and recognize a tax liability (or asset) if the Youth Home has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Youth Home and has concluded that as of December 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Youth Home is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

DONATED SERVICES - No amounts have been reflected in the consolidated financial statements for donated services. Numerous volunteers have donated significant amounts of time to the Youth Home's program services, but the criteria for recognition of these services under GAAP has not been met.

CONTRIBUTIONS - Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Youth Home reports gifts of cash and other assets as assets without donor restrictions or assets with donor restrictions, depending on the existence or nature of any donor restriction. Contributions made to the Youth Home are considered available for unrestricted use unless specifically restricted by the donor. When a donor 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 statement of activity as net assets released from restrictions.

The Youth Home reports gifts of goods and equipment as contributions without donor restriction when placed in service unless the donor has restricted the use of the asset to a specific purpose or time period. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed in service as instructed by the donor, unless the donor has also required that the acquired asset be used for a specific purpose or time period.

INVESTMENT INCOME AND GAINS - Investment income restricted by donors are reported as increases in assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

ALLOCATION OF EXPENSES - The Youth Home allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with specific programs and support services are directly allocated thereto. Other expenses that are common to several functions are allocated by percentages determined by management. These percentages are determined primarily based on the estimated staff hours devoted to each program or support service.

PAUL ANDERSON YOUTH HOME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT - 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 of Not-for-Profit Entities*. ASU 2016-14 reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and requires disclosure of (a) quantitative and qualitative information about the availability of the Youth Home's financial assets at December 31, 2018 to meet cash needs for general expenditures within one year of that date and (b) information that is useful for assessing the Youth Home's liquidity and that describes how the Youth Home manages its liquid assets available to meet cash needs for general expenditures within one year of December 31, 2018. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017. Management adopted ASU 2016-14 effective December 31, 2018 and restated the 2017 consolidated financial statements to conform to the new presentation. The adoption resulted in an increase at December 31, 2017 in net assets without donor restrictions of \$194,205 and a decrease in net assets with donor restrictions of \$194,205.

SUBSEQUENT EVENTS - The Youth Home has evaluated subsequent events through June 18, 2019, the date the consolidated financial statements were available to be issued.

RECLASSIFICATION - Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on previously reported net assets.

NOTE 2 - LIQUIDITY

The Youth Home has approximately \$429,000 of financial assets available at December 31, 2018 to meet cash needs for expenditures in the following year consisting of cash and contributions in transit in the amount of approximately \$368,000 and investments in the amount of approximately \$61,000. Of that amount, approximately \$71,000 is not subject to donor restriction and is available for general expenditures. Approximately \$247,000 is subject to donor restriction, and is immediately available for the donor restricted purpose of those funds. At December 31, 2018 the Youth Home has available financial assets, which consist of cash on hand and contributions in transit to meet two months of normal operating expenses, which are, on average, approximately \$185,000 per month. The Youth Home plans to fund the remaining 10 months of the year with collections on future revenues. The Youth Home has a policy to structure its assets to be available as its general expenditures, liabilities and other obligations come due. As more fully described in Note 9, the Youth Home also has a committed line of credit in the amount of \$250,000, with an available balance of approximately \$176,000 at December 31, 2018, which it could draw upon in the event of an unanticipated liquidity need.

PAUL ANDERSON YOUTH HOME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - MARKETABLE SECURITIES

Marketable securities, carried at fair value, consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Mutual funds, equity	<u>\$ 60,623</u>	<u>\$ 60,829</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 536,408	\$ 536,408
Buildings and improvements	3,043,930	3,012,630
Furniture, equipment, and vehicles	<u>1,838,504</u>	<u>1,831,581</u>
	5,418,842	5,380,619
Less accumulated depreciation	<u>3,303,097</u>	<u>3,165,396</u>
	<u>\$ 2,115,745</u>	<u>\$ 2,215,223</u>

NOTE 5 - ENDOWMENT FUNDS

The Youth Home interprets the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Youth Home classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

The Youth Home has adopted investment and spending policies, approved by the Board of Trustees, 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 these endowment assets over the long-term. The Youth Home's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The current long-term return objective is based on a three-year moving average based on the type of investment. Actual returns in any given year may vary from these averages. To satisfy its long-term rate-of-return objectives, the Youth Home 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 Youth Home targets a diversified asset allocation that places an emphasis on achieving long-term return objectives with prudent risk parameters.

The description of the Youth Home's endowment by net asset class is: All endowment assets are donor-restricted as net assets with donor restrictions.

PAUL ANDERSON YOUTH HOME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - ENDOWMENT FUNDS (continued)

The spending policy of the Youth Home, assuming that the fair value of endowment fund assets exceed the original endowment amount, is that up to 50% of the investment income earned by endowment fund investments, net of related expenses and of any donor-imposed restrictions on endowment income may be expended for the donor's required purpose, if any. The Youth Home has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. No funds were expended from the Youth Home's underwater endowments during the years ended December 31, 2018 and 2017. Investment income includes all interest, dividends and realized gains from endowment fund investments.

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 SPMIFA requires the Youth Home to retain as a fund of perpetual duration. Deficiencies of this nature exist in 3 donor-restricted endowment funds, which together have an original gift value of \$111,357, a current fair value of \$94,354, and a deficiency of \$17,003 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Changes in the endowment net assets (deficit) for the years ended December 31, 2018 and 2017 are as follows:

	Accumulated Investment Losses	Original Donor Restrictions	Total
<u>2018</u>			
Endowment net assets, beginning of year	\$ (194,205)	\$ 427,480	\$ 233,275
Investment returns:			
Investment income	2,318	-	2,318
Contributions	-	910	910
Released from restrictions	174,884	(317,033)	(142,149)
Endowment net assets, end of year	\$ (17,003)	\$ 111,357	\$ 94,354
	Accumulated Investment Losses	Original Donor Restrictions	Total
<u>2017</u>			
Endowment net assets, beginning of year	\$ (194,735)	\$ 426,605	\$ 231,870
Investment returns:			
Investment income	530	-	530
Contributions	-	875	875
Endowment net assets, end of year	\$ (194,205)	\$ 427,480	\$ 233,275

PAUL ANDERSON YOUTH HOME, INC.
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NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Museum building activities	\$ 60,623	\$ 60,830
Property improvements	36,141	35,141
Education	134,008	100,593
Technology	844	8,824
Equipment	<u>15,000</u>	<u>-</u>
	<u>\$ 246,616</u>	<u>\$ 205,388</u>

NOTE 7 - FUND RAISING ACTIVITIES

Revenues and direct expenses from fund raising activities were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Revenues		
Golf tournament	\$ 99,133	\$ 106,895
Bike ride	123,352	160,481
Christmas play	78,985	61,253
Run	<u>17,248</u>	<u>14,105</u>
	<u>318,718</u>	<u>342,734</u>
Expenses		
Golf tournament	23,501	19,955
Bike ride	15,700	15,533
Christmas play	19,326	19,186
Run	<u>1,045</u>	<u>4,493</u>
	<u>59,572</u>	<u>59,167</u>
Net profit	<u>\$ 259,146</u>	<u>\$ 283,567</u>

NOTE 8 - FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That 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 or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GAAP are described as follows:

PAUL ANDERSON YOUTH HOME, INC.
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NOTE 8 - FAIR VALUE MEASUREMENTS (continued)

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

Level 2 - Inputs to the valuation methodology include: 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; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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. Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds - Valued at quoted market prices at December 31, 2018 and 2017.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Youth Home 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.

Fair values of assets measured on a recurring basis are as follows at December 31:

	Fair Value	Quoted Market Prices in Active Markets for Identical Assets (Level 1)
<u>2018</u>		
Mutual funds, equity	\$ 60,623	\$ 60,623
	Fair Value	Quoted Market Prices in Active Markets for Identical Assets (Level 1)
<u>2017</u>		
Mutual funds, equity	\$ 60,829	\$ 60,829

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NOTE 9 - LINE OF CREDIT

The Youth Home has a \$250,000 line of credit, secured by real property, with a fixed interest rate of 5.5%. The line expires in January 2020. At December 31, 2018 and 2017, the outstanding balance on the line was \$74,149 and \$124,649, respectively.

NOTE 10 - NOTE PAYABLE

During 2016, the Paul Anderson Family Strong Center, Inc. entered into a note payable agreement for \$25,000 with an employee of the Paul Anderson Youth Home, Inc. The loan accrues interest at 1.5% and is secured by a guaranty by the Paul Anderson Youth Home, Inc. Interest-only payments are due monthly, with all outstanding principal and interest being due in May 2019. At December 31, 2018 and 2017, the principal balance outstanding on the note was \$5,000 and \$13,000, respectively.

NOTE 11 - RETIREMENT PLAN

The Youth Home sponsors a SIMPLE Individual Retirement Account plan that covers all full-time employees who have met certain service requirements. Employees are allowed to defer up to \$12,500 with the Youth Home matching the deferral up to 1% of compensation. Effective January 2016, the Youth Home adopted a 401(K) Safe Harbor Profit Sharing plan that covers all full-time employees who have met certain service requirements. The Youth Home matches 3% of participants' compensation, plus 50% of participants' elective deferrals that exceed 3% of the participants' compensation, but not to exceed 5% of the participants' compensation. Retirement plan expense was approximately \$22,700 and \$18,500 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 - CONCENTRATION OF CONTRIBUTIONS

Approximately 52% of contributions were received from three donors during 2018 and 33% from two donors during 2017.

NOTE 13 - GOING CONCERN

In recent years, unrestricted contributions to the Youth Home have been decreasing. As a result, for the five years ending December 31, 2018 unrestricted net assets have decreased approximately \$720,000. Management has evaluated the conditions that caused this reduction in unrestricted net assets and has developed and implemented plans to mitigate these conditions. Management's plans include a reduction in budgetary spending, an increase in parental assistance rates and increased solicitation of grants from various foundations.