

PORTER-LEATH
FINANCIAL STATEMENTS

June 30, 2017
(with summarized comparative information for 2016)

TABLE OF CONTENTS

	Page
ROSTER OF MANAGEMENT OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTAL INFORMATION	
Schedule of Functional Expenses	14
Schedule of Federal and State Awards and Expenditures	16
Notes to Schedule of Federal and State Awards and Expenditures	17
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	20
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	22
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS	23

PORTER-LEATH

ROSTER OF MANAGEMENT OFFICIALS

For the Year Ended June 30, 2017

Management Officials

Sean Lee, President

Sonia Antoine, Director of Finance

Board of Directors

Donna Abney

Douglas Beaty*

Meredith Crawford

Michael Davis*

Jason Dombroski

Will Gibbons

D. Ellis Haddad

Jim Jenkins

Marlow Martin

J. Helen Perkins

Pamela Richardson

Lee Rudd*

Gail Schledwitz

Mary Seratt

Bill Stemmler

Jack Stimac*

LaToya Swagerty

Claire Valine

Jeremiah Watson

Greg Wingo*

*Audit Committee member

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Porter-Leath

Report on the Financial Statements

We have audited the accompanying financial statements of Porter-Leath (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Porter-Leath as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of federal and state awards and expenditures, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Porter-Leath's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Porter-Leath's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Porter-Leath's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Watkins Mikusall, PLLC

Memphis, Tennessee
November 10, 2017

PORTER-LEATH

STATEMENT OF FINANCIAL POSITION

June 30, 2017
(with summarized comparative information at June 30, 2016)

	<u>Assets</u>	
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 1,374,229	\$ 2,068,294
Investments	335,824	302,183
Receivables		
Government grants and contracts	2,573,697	2,404,630
Other	18,121	6,077
Total receivables	2,591,818	2,410,707
Prepaid expenses	344,019	67,255
Total current assets	4,645,890	4,848,439
Property and equipment, net	13,567,182	6,537,260
Total assets	\$ 18,213,072	\$ 11,385,699
	<u>Liabilities and Net Assets</u>	
Current Liabilities		
Accounts payable	\$ 1,632,999	\$ 1,115,289
Accrued liabilities	544,365	525,342
Deferred revenue	214,600	-
Total current liabilities	2,391,964	1,640,631
Net Assets		
Unrestricted		
Invested in property and equipment	13,567,182	6,537,260
Available for operations	2,028,032	1,881,845
Total unrestricted net assets	15,595,214	8,419,105
Temporarily restricted	225,894	1,325,963
Total net assets	15,821,108	9,745,068
Total liabilities and net assets	\$ 18,213,072	\$ 11,385,699

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

PORTER-LEATH

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017
(with summarized comparative information for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
Revenue and Support				
Federal and state awards	\$ 8,628,093	\$ -	\$ 8,628,093	\$ 8,796,178
Contract revenues	21,935,385	-	21,935,385	21,458,523
United Way	474,030	-	474,030	460,216
Private contributions	2,009,596	-	2,009,596	597,347
Private foundations and agencies	40,140	6,919,500	6,959,640	3,863,317
In-kind contributions	1,011,043	-	1,011,043	986,489
Interest income	8,758	-	8,758	5,211
Change in market value of investments	27,380	-	27,380	(13,427)
Miscellaneous income	205,075	-	205,075	260,653
Gain/(loss) on disposal of property	(564)	-	(564)	9,468
Net assets released from restrictions	<u>8,019,569</u>	<u>(8,019,569)</u>	<u>-</u>	<u>-</u>
Total revenue and support	42,358,505	(1,100,069)	41,258,436	36,423,975
Expenses				
Program Services				
Head Start	16,726,502	-	16,726,502	17,831,696
Early Head Start	5,647,850	-	5,647,850	5,425,435
Preschool	5,093,502	-	5,093,502	2,530,261
Residential Services	1,872,915	-	1,872,915	1,757,029
Generations	656,679	-	656,679	635,185
Cornerstone	563,377	-	563,377	542,083
Other services	<u>856,632</u>	<u>-</u>	<u>856,632</u>	<u>848,909</u>
Total program services	31,417,457	-	31,417,457	29,570,598
Management and general	3,155,163	-	3,155,163	2,847,919
Fundraising	<u>609,776</u>	<u>-</u>	<u>609,776</u>	<u>477,623</u>
Total expenses	<u>35,182,396</u>	<u>-</u>	<u>35,182,396</u>	<u>32,896,140</u>
Change in net assets	7,176,109	(1,100,069)	6,076,040	3,527,835
Net assets at beginning of year	<u>8,419,105</u>	<u>1,325,963</u>	<u>9,745,068</u>	<u>6,217,233</u>
Net assets at end of year	<u>\$ 15,595,214</u>	<u>\$ 225,894</u>	<u>\$ 15,821,108</u>	<u>\$ 9,745,068</u>

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

PORTER-LEATH

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017
(with summarized comparative information for the year ended June 30, 2016)

	2017	2016
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	\$ 6,076,040	\$ 3,527,835
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	590,270	514,283
Change in market value of investments	(27,380)	13,427
Contributions restricted for capital expenditures	(7,412,208)	(3,799,158)
Loss on disposal of property	564	-
Change in Operating Assets and Liabilities:		
Increase (Decrease) in Cash and Cash Equivalents:		
Receivables	(181,111)	(993,952)
Prepaid expenses	(276,764)	(24,170)
Accounts payable	125	20,932
Accrued liabilities	19,023	(359,367)
Deferred revenue	214,600	-
Total adjustments	(7,072,881)	(4,628,005)
Net cash used for operating activities	(996,841)	(1,100,170)
 Cash Flows From (Used For) Investing Activities:		
Purchase of property and equipment	(7,103,171)	(2,155,923)
Purchases of investments	(2,036)	-
Proceeds from sale of investments	-	1,519
Reinvestment of interest and dividends	(4,225)	(4,209)
Net cash used for investing activities	(7,109,432)	(2,158,613)
 Cash Flows From Financing Activities:		
Contributions restricted for capital expenditures	7,412,208	3,799,158
 Increase (decrease) in cash and cash equivalents	(694,065)	540,375
 Cash and cash equivalents at beginning of year	2,068,294	1,527,919
 Cash and cash equivalents at end of year	\$ 1,374,229	\$ 2,068,294
 Noncash Operating and Investing Activities:		
Capital expenditures accrued in accounts payable	\$ 517,585	\$ 721,653
 Supplemental Cash Flow Information:		
Cash paid for interest	\$ 20,599	\$ 22,805

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

PORTER-LEATH

NOTES TO FINANCIAL STATEMENTS

June 30, 2017
(with summarized comparative information for 2016)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Founded in 1850 as an orphanage, Porter-Leath's mission has evolved into empowering children and families to achieve a healthy, optimal and independent lifestyle. Porter-Leath services over 12,000 local at-risk children and families in five focus areas.

Preschool – prepares over 5,800 low-income children to be kindergarten-ready and assist their parents in supporting their children. These programs include Head Start, Early Head Start and Pre-K.

Spoonfuls – feeds over 700 children each weekday by reimbursing family home child care providers for USDA approved healthy meals served to the children while also ensuring safety standards are met in the home.

Cornerstone – provides prenatal education, assists pregnant women to have healthy birth weight babies, and equips parents to be their child's first teacher.

Residential – brings children together with families and caregivers in a stable, nurturing environment.

Generations – provides seniors the opportunity to mentor and serve children in classroom, library and hospital settings.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Porter-Leath reports its financial position and activities in three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of Porter-Leath and changes therein are classified and reported as follows:

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Porter-Leath. There were no permanently restricted net assets at June 30, 2017 and 2016.

Temporarily Restricted Net Assets – Net assets subject to donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Contributions and Support

Porter-Leath receives support and revenue from a variety of sources including governmental agencies and private contributions. Support represents nonreciprocal receipts of income such as grants. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to Porter-Leath that is, in substance, unconditional.

Gifts In-Kind

Contributions of donated services that create or enhance non-financial 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 market value in the period received.

Porter-Leath receives certain in-kind contributions, consisting of meals, toys, clothes, rent and professional services, which have been recorded at their fair values in the statement of activities. The corresponding expense has been allocated to the appropriate program or supporting service. For the years ended June 30, 2017 and 2016, in-kind contributions consisted of the following:

	<u>2017</u>	<u>2016</u>
Professional services	\$ 209,318	\$ 240,923
Goods	75,938	51,700
Occupancy	<u>725,787</u>	<u>693,866</u>
Total	<u>\$ 1,011,043</u>	<u>\$ 986,489</u>

Functional Expenses

The costs of providing programs and administrative support services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentrations and Credit Risks

Porter-Leath's credit risks primarily relate to cash and cash equivalents and accounts receivable. Porter-Leath maintains cash balances at a bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of \$250,000.

Porter-Leath received 24% and 27% of its revenue and support from federal and state awards for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, 52% and 42%, respectively, of total accounts receivable was due from these entities.

Porter-Leath received 46% and 50% of its revenue and support from contracts with one organization for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, 34% and 30%, respectively, of total accounts receivable was due from this organization.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Porter-Leath considers all highly liquid debt instruments purchased with initial maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value in the statement of financial position. Realized and unrealized gains and losses are reported in the statement of activities as change in market value of investments.

Fair Value Measurement

Porter-Leath applies U.S. GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 2 for the required disclosure information.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. The allowance for uncollectible accounts is based upon a review of the receivables, past experience, current economic conditions, and other pertinent factors which form a basis for determining the adequacy of the allowance. Management did not consider an allowance to be necessary for 2017 and 2016.

Property and Equipment

Porter-Leath capitalizes assets costing \$5,000 or more, at the acquisition cost. Gifts of property are recorded at fair market value at the date of donation. Depreciation is provided over estimated useful lives ranging from 3 to 40 years, using the straight-line method of depreciation. Repairs and maintenance costs are expensed as incurred. Costs related to ongoing building development projects are capitalized as construction in progress, and begin depreciating upon completion of the project.

Property and equipment acquired with government grant monies may retain a reversionary interest with the awarding agency. Such property may not be sold or disposed of without written approval from these agencies.

Income Taxes

No provision for federal income taxes is required since Porter-Leath is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an organization that is not a private foundation. Porter-Leath files an exempt return in the U.S. federal jurisdiction.

Advertising Costs

Porter-Leath expenses advertising costs as incurred. Advertising costs amounted to \$23,952 and \$19,561 for the years ended June 30, 2017 and 2016, respectively.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Porter-Leath's 2016 financial statements. Additionally, certain prior year amounts have been reclassified to conform with the current year presentation.

Date of Management's Review

Porter-Leath evaluated its June 30, 2017 financial statements for subsequent events through November 10, 2017, the date the financial statements were available to be issued. Other than the event discussed in Note 11, management is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

U.S. GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities Porter-Leath has the ability to access.

Level 2 – Inputs (other than quoted prices within level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.

Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In determining fair values, Porter-Leath utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Investments consist of funds invested in the balanced pool at the Community Foundation of Greater Memphis ("CFGM"). CFGM has invested approximately 60% of these funds in equity pools, which is invested in U.S. equities, and approximately 25% in fixed income pools, which is diversified among bond sectors such as U.S. Government, agency, corporate, and mortgage backed securities. The remaining funds are divided between real estate and other investments.

Investments held with CFGM are classified as Level 3 for valuation purposes. Although the majority of CFGM's holdings are invested in assets that are valued by quoted prices in active markets, Porter-Leath does not have access to the CFGM holdings and therefore does not have any observable inputs for CFGM. However, Porter-Leath does receive quarterly statements from CFGM which show the fair market value and their portion of the funds.

The following is a summary of the activity for investments measured at fair value using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 302,183	\$ 312,920
Realized gains	1,053	7,573
Unrealized gains (losses)	26,327	(21,000)
Purchases and settlements, net	<u>6,261</u>	<u>2,690</u>
Balance, end of year	<u><u>\$ 335,824</u></u>	<u><u>\$ 302,183</u></u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 5,241,025	\$ 5,241,025
Land	244,048	244,048
Buildings	9,577,480	867,428
Furnishings and equipment	1,692,070	1,686,320
Vehicles	97,021	100,217
Building improvements	163,175	149,431
Construction in progress	<u>1,475,349</u>	<u>2,597,844</u>
	18,490,168	10,886,313
Less accumulated depreciation	<u>(4,922,986)</u>	<u>(4,349,053)</u>
Property and equipment, net	<u><u>\$ 13,567,182</u></u>	<u><u>\$ 6,537,260</u></u>

Leasehold improvements for Porter-Leath's administrative offices are located on property owned by Porter-Leath Home, an affiliated organization. Management believes that current arrangements will continue indefinitely.

Depreciation expense for the years ended June 30, 2017 and 2016 was \$590,270 and \$514,283, respectively.

NOTE 4 - LINES OF CREDIT

Porter-Leath maintains a \$3,000,000 line of credit with a local bank. The line of credit is secured by all of Porter-Leath's accounts and has a maturity date of January 31, 2018. Interest on the line of credit equals the bank's commercial rate, 4.00% at June 30, 2017, and is due and payable monthly. There were no outstanding borrowings under the line of credit at June 30, 2017 and 2016.

Porter-Leath maintains a \$1,000,000 line of credit with a local bank. The line of credit is secured by investments of Porter-Leath Home, a related party (see Note 8), and has a maturity date of March 1, 2019. Interest on the line of credit equals the 90-day LIBOR rate plus two percent, 3.30% at June 30, 2017, and is due and payable quarterly. There were no outstanding borrowings under the line of credit at June 30, 2017 and 2016.

Interest expense for the years ended June 30, 2017 and 2016, was \$20,599 and \$22,805, respectively.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Early Childhood Academy	<u>\$ 225,894</u>	<u>\$ 1,325,963</u>

NOTE 6 - RETIREMENT PLAN

Porter-Leath has a profit sharing plan (the "Plan") under section 401(k) of the Internal Revenue Code that covers all of its employees who have attained 21 years of age and have 12 months of consecutive service. Porter-Leath matches employee contributions dollar for dollar subject to a 3% limitation. Employer contributions to the Plan totaled \$158,759 and \$126,543 for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 - OPERATING LEASES

Porter-Leath leases facilities, vehicles and small equipment through various operating leases. Total lease expense was \$485,083 and \$474,377 for the years ended June 30, 2017 and 2016, respectively.

Future minimum payments under the long-term operating leases for the years ending June 30 are as follows:

2018	\$ 266,549
2019	239,436
2020	232,839
2021	169,248
2022	169,248
Thereafter	42,312
	<u>\$ 1,119,632</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2017 and 2016, Porter-Leath Home, an affiliated organization, reimbursed Porter-Leath \$114,000 and \$114,000, respectively, for repairs and upkeep to the building facilities. Certain investments held by Porter-Leath Home serve as collateral on one of Porter-Leath's lines of credit (see Note 4).

During the years ended June 30, 2017 and 2016, Porter Leath Early Childhood Foundation, an affiliated organization, reimbursed Porter-Leath approximately \$65,000 for development salaries each year. At June 30, 2017 and 2016, Porter-Leath had advances from the Porter-Leath Early Childhood Foundation of \$7,485 and \$14,628, respectively, relating to these items.

NOTE 9 - FUTURE COMMITMENT

During 2017, Porter-Leath purchased a new office building and entered into a construction contract totaling \$1,143,414 to make necessary renovations to the building. At June 30, 2017, the remaining commitment under the contract is approximately \$626,000.

NOTE 10 - CONDITIONAL PROMISE TO GIVE

In 2017, Porter-Leath received a conditional promise to give from an organization of \$250,000 to be used for the Early Childhood Support Center. The promise is conditioned upon Porter-Leath raising \$250,000 for the project. The promise also includes a possible renewal of \$250,000 that is conditioned upon Porter-Leath raising an additional \$500,000 for the project. Porter-Leath has until April 28, 2018 to meet these conditions.

NOTE 11 - SUBSEQUENT EVENT

Effective September 30, 2017, Porter-Leath merged in another nonprofit organization called Books from Birth. Under the merger agreement, Books from Birth will become a program of Porter-Leath.

SUPPLEMENTAL INFORMATION

PORTER-LEATH

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017
(with summarized comparative information for 2016)

	Program Services					
	Head Start	Early Head Start	Preschool	Residential Services	Generations	Cornerstone
Salaries	\$ 10,296,284	\$ 2,871,668	\$ 3,542,149	\$ 1,042,805	\$ 158,723	\$ 390,056
Employee retirement	91,509	14,714	9,313	8,035	3,568	673
Benefits	1,180,971	339,778	286,947	71,721	6,911	37,024
Payroll taxes	900,550	252,008	306,557	91,560	13,994	33,381
Conferences and training	26,185	43,023	29,659	1,955	640	5,417
Professional fees	94,095	16,796	21,242	898	-	29,764
Partner agreements	-	946,946	-	-	-	-
Stipends	-	-	-	16,397	307,047	-
Program supplies	363,859	187,412	194,852	15,939	5,290	3,653
Food	937,630	116,622	8,588	57,915	3,048	289
Vehicle and equipment rental	77,046	17,410	9,950	7,213	1,459	3,296
Communications	86,424	26,055	21,599	18,895	4,266	4,921
Postage	2,083	311	559	376	1,234	-
Occupancy	1,062,050	296,511	191,825	71,564	3,698	430
Accounting fees	-	-	-	-	-	-
Insurance - general	44,362	4,509	99	5,121	1,950	692
Printing and publications	1,322	2,064	1,230	869	99	552
Advertising	112	-	-	-	50	-
Vehicle expense and mileage	78,342	7,354	76,755	24,941	5,628	28,875
Travel	20,803	26,545	10,482	2,604	4,685	7,641
Office	33,745	13,881	19,064	10,087	1,282	939
Boarding fees	-	-	-	289,492	-	-
Legal fees	-	-	-	-	-	-
Client services	296,489	34,039	129,454	9,211	67,472	1,789
Small equipment and furnishings	191,353	13,246	147,565	571	-	-
Special events	96,759	14,879	36,179	3,633	10,604	863
Interest and penalties	12,946	-	-	-	-	-
Miscellaneous	9,609	7,951	1,295	2,830	1,250	-
In-kind expenditures	601,804	336,358	-	26,310	36,948	-
Total functional expenses before depreciation	16,506,332	5,590,080	5,045,363	1,780,942	639,846	550,255
Depreciation	220,170	57,770	48,139	91,973	16,833	13,122
Total functional expenses	<u>\$ 16,726,502</u>	<u>\$ 5,647,850</u>	<u>\$ 5,093,502</u>	<u>\$ 1,872,915</u>	<u>\$ 656,679</u>	<u>\$ 563,377</u>

See independent auditor's report.

PORTER-LEATH

SCHEDULE OF FUNCTIONAL EXPENSES (cont.)

For the Year Ended June 30, 2017
(with summarized comparative information for 2016)

	<u>Program Services</u>		<u>Supporting Services</u>		Total	<u>Total 2016</u>
	<u>Other Services</u>	<u>Subtotal</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Program and Supporting Services</u>	
Salaries	\$ 323,367	\$ 18,625,052	\$ 1,883,093	\$ 277,801	\$ 20,785,946	\$ 19,739,005
Employee retirement	2,013	129,825	23,440	5,494	158,759	126,543
Benefits	26,496	1,949,848	216,549	33,277	2,199,674	2,221,537
Payroll taxes	25,122	1,623,172	153,303	26,747	1,803,222	1,727,817
Conferences and training	550	107,429	1,411	287	109,127	217,408
Professional fees	-	162,795	48,204	13,845	224,844	140,138
Partner agreements	-	946,946	-	-	946,946	655,080
Stipends	-	323,444	-	-	323,444	311,418
Program supplies	1,454	772,459	4,221	1,602	778,282	773,009
Food	449,533	1,573,625	7,633	7,435	1,588,693	1,492,503
Vehicle and equipment rental	1,771	118,145	17,772	1,237	137,154	118,579
Communications	8,966	171,126	61,166	5,042	237,334	209,464
Postage	1,212	5,775	4,741	3,311	13,827	15,437
Occupancy	5,862	1,631,940	178,229	3,289	1,813,458	1,781,837
Accounting fees	-	-	157,267	-	157,267	128,671
Insurance - general	-	56,733	86,451	750	143,934	138,453
Printing and publications	99	6,235	5,278	10,969	22,482	22,488
Advertising	-	162	399	23,391	23,952	19,561
Vehicle expense and mileage	1,758	223,653	31,348	983	255,984	221,856
Travel	2,844	75,604	-	-	75,604	60,556
Office	954	79,952	26,412	1,603	107,967	110,219
Boarding fees	-	289,492	-	-	289,492	213,372
Legal fees	-	-	11,284	-	11,284	9,534
Client services	975	539,429	-	-	539,429	440,402
Small equipment and furnishings	-	352,735	9,762	3,302	365,799	108,033
Special events	2,205	165,122	319	177,276	342,717	274,590
Interest and penalties	-	12,946	7,653	-	20,599	22,805
Miscellaneous	725	23,660	75,629	4,574	103,863	95,053
In-kind expenditures	726	1,002,146	7,347	1,550	1,011,043	986,489
Total functional expenses before depreciation	856,632	30,969,450	3,018,911	603,765	34,592,126	32,381,857
Depreciation	-	448,007	136,252	6,011	590,270	514,283
Total functional expenses	<u>\$ 856,632</u>	<u>\$ 31,417,457</u>	<u>\$ 3,155,163</u>	<u>\$ 609,776</u>	<u>\$ 35,182,396</u>	<u>\$ 32,896,140</u>

See independent auditor's report.

PORTER-LEATH

SCHEDULE OF FEDERAL AND STATE AWARDS AND EXPENDITURES

For the Year Ended June 30, 2017

Federal Agency/Pass-Through Agency/Program	CFDA Number	Grant Number	Amount Expended
U. S. Department of Agriculture			
Tennessee Department of Education/ National School Lunch Program	10.555	N/A	\$ 24,487
Tennessee Department of Human Services/ Child and Adult Care Food Program	10.558	N/A	<u>2,302,705</u>
Total U. S. Department of Agriculture			2,327,192
U.S. Department of Health and Human Services			
Oasis Center/Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	N/A	10,000
Le Bonheur/Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program	93.505	N/A	532,165
Direct Award/Head Start	93.600	04CH010201-02-00, 04CH4730-04-01, 04HP0043-02-00	4,705,753
Direct Award/Basic Center Grant	93.623	90CY6624	<u>216,401</u>
Total U.S. Department of Health and Human Services			5,464,319
Corporation for National and Community Service			
Direct Award/Retired and Senior Volunteer Program	94.002	16SRSMS005	62,145
Tennessee Commission of National & Community Service/AmeriCorps	94.006	N/A	240,376
Direct Award/Foster Grandparent Program	94.011	15SFSTN001	<u>490,980</u>
Total Corporation for National and Community Service			<u>793,501</u>
Total federal awards			8,585,012
Tennessee Department of Education			
TN Early Intervention System	N/A	N/A	<u>43,081</u>
Total federal and state awards			<u><u>\$ 8,628,093</u></u>

See independent auditor's report and accompanying notes to the schedule.

PORTER-LEATH

NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS AND EXPENDITURES

June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of federal and state awards and expenditures (the “Schedule”) includes the federal and state award activity of Porter-Leath under programs of those governments for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of Porter-Leath, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Porter-Leath.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Porter-Leath has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – SUBRECIPIENTS

Porter-Leath did not pass any awards through to subrecipients for the year ended June 30, 2017.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Porter-Leath

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Porter-Leath (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Porter-Leath's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Porter-Leath's internal control. Accordingly, we do not express an opinion on the effectiveness of Porter-Leath's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Porter-Leath's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Mikusall, PLLC

Memphis, Tennessee
November 10, 2017

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Porter-Leath

Report on Compliance for Each Major Federal Program

We have audited Porter-Leath’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Porter-Leath’s major federal programs for the year ended June 30, 2017. Porter Leath’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Porter Leath’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Porter-Leath’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Porter-Leath’s compliance.

Opinion on Each Major Federal Program

In our opinion, Porter-Leath complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Porter-Leath is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Porter-Leath's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Porter-Leath's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Memphis Tennessee
November 10, 2017

PORTER-LEATH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Porter-Leath were prepared in accordance with U.S. GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Porter-Leath were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Porter-Leath expresses an unmodified opinion on all major federal programs.
6. There were no audit findings required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was:

CFDA No. 10.558 – Child and Adult Care Food Program (CACFP)
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Porter-Leath was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

PORTER-LEATH

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2017

None