THE MENTORING ALLIANCE

Financial Statements
Together With Independent Auditors' Report

June 30, 2018

THE MENTORING ALLIANCE
TABLE OF CONTENTS
JUNE 30, 2018

	Pages
Independent Auditors' Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 13

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Mentoring Alliance
Tyler, Texas

We have audited the accompanying financial statements of The Mentoring Alliance (a non-profit organization) (Alliance), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, 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.

Auditors' 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. 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.

PROTHRO, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance as of June 30, 2018, 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.

Prothro, Wilhelmi & Company, PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
September 30, 2018

THE MENTORING ALLIANCE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS		
Current assets:		
Cash and cash equivalents	$	2,606,425
Accounts receivable		8,584
Prepaid expenses		7,354
Total current assets		2,622,363
Endowment funds		95,328
Property and equipment, net of accumulated depreciation		3,157,337
Total assets	$	5,875,028
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$	5,080
Total liabilities		5,080
Net Assets:		
Unrestricted		5,383,564
Temporarily restricted		486,384
Total net assets		5,869,948
Total liabilities and net assets	$	5,875,028

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

THE MENTORING ALLIANCE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	$ 818,930	$ 376,560	$ -	$ 1,195,490
Foundations	818,033	1,824,111	-	2,642,144
Special events net of related expenses of $87,827	131,673	-	-	131,673
BGCET Program income	1,230,294	-	-	1,230,294
Rose City Summer camps	345,455	-	-	345,455
Rental income	10,800	-	-	10,800
Interest and dividends	9,364	-	-	9,364
Unrealized gains/(losses)	1,441	-	-	1,441
Total support and revenue	3,365,990	2,200,671	-	5,566,661
Net assets released from restrictions	1,771,992	(1,771,992)	-	-
Total net assets released from restrictions	1,771,992	(1,771,992)	-	-
Total support, revenue and net assets released from restrictions	5,137,982	428,679	-	5,566,661
EXPENSES				
Program services	2,793,594	-	-	2,793,594
General and administrative	326,546	-	-	326,546
Fundraising	197,473	-	-	197,473
Total expenses	3,317,613	-	-	3,317,613
Change in net assets	1,820,369	428,679	-	2,249,048
NET ASSETS				
Balance, beginning of year	3,563,195	57,705	-	3,620,900
Balance, end of year	$ 5,383,564	$ 486,384	$ -	$ 5,869,948

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

THE MENTORING ALLIANCE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	General & Administrative	Fundraising	Total Expenses
Accounting	$ 11,897	$ 23,497	$ -	$ 35,394
Bank and credit card fees	96,110	1,277	4,823	102,210
Conferences and meetings	206	1,334	45	1,585
Depreciation	178,668	-	3,646	182,314
Employee benefits	120,478	12,757	1,061	134,296
Insurance	23,915	-	412	24,327
Information technology	12,062	18,859	690	31,611
Licenses / registrations	15,355	2,459	-	17,814
Marketing	59,573	10,593	9,541	79,707
Occupancy	66,602	-	1,344	67,946
Office expenses	62,770	34,365	14,376	111,511
Payroll taxes	128,981	7,218	10,491	146,690
Professional fees	61,055	18,471	1,841	81,367
Program supplies/meals/other	160,103	-	-	160,103
Retirement	18,444	1,636	2,291	22,371
Salaries/wages	1,686,794	158,725	143,842	1,989,361
Scholarships	4,037	-	-	4,037
Staff and volunteer training	68,730	26,090	1,105	95,925
Travel	17,814	9,265	1,965	29,044
Total Expenses	$ 2,793,594	$ 326,546	$ 197,473	$ 3,317,613

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

THE MENTORING ALLIANCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$	2,249,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		182,314
Unrealized gain on endowment		(2,078)
Loss on disposal of assets		(801)
(Increase) decrease in:		
Accounts receivable		(8,084)
Prepaid expenses		9,132
Increase (decrease) in:		
Accounts payable		(11,293)
Deferred revenue		(48,511)
Total adjustments		120,679
Net cash provided by operating activities		2,369,727
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment		(1,507,337)
Proceeds from disposal of asset		1,900
Contributions to endowment fund		(50,000)
Net cash used in investing activities		(1,555,436)
Net increase in cash and cash equivalents		814,290
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,792,135
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	2,606,425

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

THE MENTORING ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES

The purpose of The Mentoring Alliance (Alliance) is to mobilize godly people into the lives of kids and families, to provide tangible help and eternal hope. The Alliance relies on local support through grants, donations, and charges for services.

The Alliance operates three divisions identified as Boys & Girls Clubs of East Texas, Rose City Summer Camps, and Gospel Village.

Boys & Girls Clubs of East Texas provides quality after-school care for kindergarten through fifth grade students and one middle school location.

Rose City Summer Camps is designed to create a summer camp experience that is not only fun and active, but will help students stay engaged academically and close that "summer gap" to ensure they are ready for the next school year.

Gospel Village connects godly people from local churches with students from local schools in mutually transforming mentoring relationships.

BASIS OF PRESENTATION

The Alliance's financial statements are presented on the accrual basis of accounting, in accordance with Generally Accepted Accounting Principles, and accordingly, reflect all significant receivables, payables and other liabilities. In addition, the Alliance 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.

INCOME TAXES

The Alliance has been granted tax-exempt status by the Internal Revenue Code Section 501(c)(3). Accordingly, no provision for federal income taxes has been recorded in the accompanying financial statements. The Alliance has not been classified by the Internal Revenue Service as a private foundation, and donations made to the Alliance are tax deductible. The Alliance believes it has filed all required tax reports and has no uncertain tax positions. The years 2014 to 2016 remain open for examination by taxing authorities.

ADVERTISING COSTS

All advertising costs are expensed when incurred. Advertising expense for the year ended June 30, 2018, was $79,707.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

The Alliance considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Periodically, the Alliance has cash on deposit at banks in excess of federally insured limits. As of June 30, 2018, $1,083,565 of the Alliance's cash and cash equivalents exceeded the insured limits.

FIXED ASSETS

Equipment and furniture are stated at cost, or if donated, at fair market value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Land	Not depreciable
Buildings	20 years
Furniture and equipment	3 to 7 years
Recreation equipment	3 to 7 years
Autos	5 years

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Donated stock is liquated upon receipt of the gift. The value of the donated stock liquated as of June 30, 2018, was $75,154.

USE OF ESTIMATES

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses as of the dates and for the periods presented. Actual results could differ from these estimates.

NOTE 2 - FUNCTIONAL ALLOCATION OF EXPENSES

Salaries and related expenses are allocated to the various program and supporting services based on actual or estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical or are allocated based on other expenses.

NOTE 3 - RETIREMENT PLAN

In 2014, the Alliance adopted a tax-qualified, defined contribution pension account, as defined in subsection 401(k) of the Internal Revenue Code, covering all eligible employees. In January of 2016, the plan was revised and restated to include a “Safe Harbor Provision” to encourage more participation in the plan. Under this restatement, the Alliance matches 100% of each employee’s contributions up to 3% of salary plus an additional match of 50% of each employee’s contributions up to 5% of salary. Thus, an employee who is making a contribution of 5% will have a total match of 4% from The Alliance. Another change as part of the Safe Harbor Provision is that all employer contributions are immediately 100% vested by each participating employee. $22,371 was charged to expenses for the year ended June 30, 2018.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

The Alliance had $486,384 of temporarily restricted net assets as of June 30, 2018. The temporarily restricted net assets are comprised of the following:

Building Project Donations	$	320,462
General Donations for Subsequent Year		100,000
Boulter Middle School Project		50,000
BGC Food Program		2,500
Scholarships		7,432
Other		5,990
	$	486,384

NOTE 5 - CONCENTRATIONS OF REVENUE

Approximately 42% of the Alliance's revenue is received from charges for services. The majority of revenue is received from the Smith County area.

NOTE 6 – PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2018, is as follows:

Land	$ 792,271
Building and improvements	3,276,408
Office furniture and fixtures	136,242
Autos	2,100
Machinery and equipment	249,458
Website design	13,050
Construction in progress	813,963
Subtotal	5,283,492
Less: Accumulated depreciation	(2,126,155)
Property and equipment, net of depreciation	$ 3,157,337

Depreciation recorded for the year ended June 30, 2018 was $182,314.

On June 15, 2018, the Alliance acquired a new building at a contract sales price of $1,500,000. Of this amount, $806,625 is classified as construction in progress and $693,375 is classified as land at year end. The Alliance plans to relocate its headquarters to the new building. The current headquarters is held for sale.

NOTE 7 – ENDOWMENT FUND

The Alliance maintains an endowment with the East Texas Communities Foundation (Foundation) that was established in 2007. The Alliance's endowment is designated by the Board of Directors (Board). As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Investment Return Objectives, Risk Parameters, and Strategies

The Alliance has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment fund while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

NOTE 7 – ENDOWMENT FUND (continued)

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Alliance may distribute up to 5% of the value of the fund determined as of the preceding December 31. Any portion of the distribution not withdrawn by the nonprofit in one year may be withdrawn in a subsequent year. In addition to ordinary distributions, extraordinary distributions to the nonprofit may be made from the fund at any time in any amount if requested by a 2/3 vote of the total number of directors or trustees of the nonprofit and approved by a majority vote of the Board of Directors of the Foundation.

As of June 30, 2018, the fair market value of the endowment was $95,328.

RECONCILIATION OF ORGANIZATION'S ENDOWMENT BY NET ASSET CLASS:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 43,250	$ -	$ -	$ 43,250
Current year contributions:	50,000	-	-	50,000
Investment return:				
Investment income	4,743	-	-	4,743
Unrealized gain	(1,411)	-	-	(1,411)
Total investment return	3,332	-	-	3,332
				-
Other changes:				-
Administrative fees	(723)	-	-	(723)
Investment fees	(531)	-	-	(531)
Total other changes	(1,254)	-	-	(1,254)
Endowment net assets, end of year	$ 95,328	$ -	$ -	$ 95,328

NOTE 8 – FAIR VALUE MEASUREMENTS

The Alliance uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs (other than Level 1) that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on the Alliance's assumptions about hypothetical marketplace because observable market inputs are not available as of the reporting date.

The Alliance uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities. When available, the Alliance measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

Fair values of assets measured at June 30, 2018 are as follows:

		Fair Value Measurements at the End of the Reporting Period Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Recurring fair value measurements:				
Endowment	$ 95,328	$ 95,328	$ -	$ -
Total recurring fair value measurements	$ 95,328	$ 95,328	$ -	$ -

Fair value for the endowment is measured using the fair value of the assets held in the trust as reported by the trustee as of June 30, 2018. The Alliance considers the measurement of its endowment of $95,328 to be a Level 1 measurement.

NOTE 9 –FUNDRAISING ACTIVITIES

The schedule below represents the special events held by the Alliance as of June 30, 2018:

Special Event	Income	Expenses	Net of Expense
Golf Tournament	$154,465	$53,501	$100,964
The Mentor Alliance Luncheon	41,885	16,678	25,207
Day for Kids	23,150	17,648	5,502
Total	$219,500	$87,827	$131,673

NOTE 10 – PROGRAM EXPENSE BY PROGRAM

The schedule below represents program expense by program:

Boys & Girls Clubs	$1,478,344
Rose City Summer Camps	669,404
Gospel Village	645,846
	$2,793,594

NOTE 11 – LEASE INCOME

The Alliance, as lessor, entered into a one-year operating lease agreement on May 3, 2018 for a portion of the administrative building. The lease commenced on July 1, 2018.

Future minimum lease payments to the Alliance under this operating lease is as follows:

Future Minimum Lease Payments	
2019	$72,000

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2018, the date that the financial statements were available to be issued.