YOUTH ENCOURAGEMENT SERVICES

Financial Statements

December 31, 2004

(With Independent Auditors' Report Thereon)

LATTIMORE BLACK MORGAN & CAIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

YOUTH ENCOURAGEMENT SERVICES

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LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Youth Encouragement Services:

We have audited the accompanying statement of financial position of Youth Encouragement Services as of December 31, 2004, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 2(c) to the financial statements, certain land and buildings are stated at estimated appraised value as of December 31, 1994 in the accompanying statement of financial position. Also, depreciation expense has not been recorded for all years in which the buildings have been in service. Generally accepted accounting principles require that such assets be stated at acquisition cost, net of depreciation on buildings, and that depreciation be recorded each year based on the economic life of the buildings. The effects on the financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Encouragement Services as of December 31, 2004, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore, Black, Morgan & Cain, P.C.

Brentwood, Tennessee
May 6, 2005

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YOUTH ENCOURAGEMENT SERVICES

Statement of Financial Position

December 31, 2004

Assets

Current assets:	
Cash	$ 240,370
Investments	137,270
Prepaid expenses	1,709
Total current assets	379,349
Property and equipment, net:	
Land	106,236
Land improvements	14,822
Buildings	532,107
Furniture, fixtures and equipment	151,156
Vehicles	119,851
	924,172
Accumulated depreciation	(350,592)
Property and equipment, net	573,580
	$ 952,929

Liabilities and Net Assets

Current liabilities:	
Note payable	$ 45,889
Accounts payable	42,264
Accrued expenses	3,605
Total current liabilities	91,758
Net assets:	
Unrestricted	808,504
Temporarily restricted	47,667
Permanently restricted	5,000
Total net assets	861,171
	$ 952,929

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Activities

Year ended December 31, 2004

Changes in unrestricted net assets:		
Public support and revenue:		
Public support:		
Individual support	$ 278,788	
Congregational support	117,591	
Corporate support	33,834	
Foundations	48,300	
In-kind donations	121,096	
Fundraising revenue	189,446	
Total public support	789,055	
Revenue:		
Rental income	2,950	
Interest income	120	
Investment income	8,669	
Miscellaneous income	2,472	
Total revenue	14,211	
Satisfaction of restrictions	15,000	
Total unrestricted public support and revenue	818,266	803,266
Expenses:		
Program services	500,039	
Supporting services	262,353	
Total expenses	762,392	
Increase in unrestricted net assets	55,874	
Changes in temporarily restricted net assets:		
Contributions	47,667	
Net assets released from restrictions	(15,000)	
Increase in temporarily restricted assets	32,667	
Increase in net assets	88,541	
Net assets at beginning of year	772,630	
Net assets at end of year	$ 861,171	

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Cash Flows

Year ended December 31, 2004

Cash flows from operating activities:	
Increase in net assets	$ 88,541
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	49,689
Net gain on investments	(1,883)
Donated investments	(36,286)
Donated equipment	(1,800)
Decrease in operating assets:	
Prepaid expenses	2,458
Increase in operating liabilities:	
Accounts payable	30,469
Accrued expenses	3,605
Total adjustments	46,252
Net cash provided by operating activities	134,793
Cash flows from investing activities:	
Purchases of property and equipment	(27,901)
Proceeds from sale of investments	20,146
Net cash provided by investing activities	(7,755)
Cash flows from financing activities - payments of note payable	(12,946)
Increase in cash	114,092
Cash at beginning of year	126,278
Cash at end of year	$ 240,370

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Functional Expenses

Year ended December 31, 2004

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	$ 92,750	$ 10,105	$ 102,855	$ 21,760	$ 18,902	$ 40,662	$ 143,517
Housing and auto allowance	34,109	-	34,109	12,105	12,105	24,210	58,319
Payroll taxes	9,670	773	10,443	2,591	2,372	4,963	15,406
Employee related expenses	-	-	-	6,019	-	6,019	6,019
Scholarships and awards	10,000	-	10,000	-	-	-	10,000
Insurance	34,336	-	34,336	8,756	8,756	17,512	51,848
Depreciation	43,878	-	43,878	5,811	-	5,811	49,689
Printing and publications	12,918	-	12,918	-	31,388	31,388	44,306
Postage	2,327	-	2,327	517	2,327	2,844	5,171
Professional services	1,550	-	1,550	1,550	2,238	3,788	5,338
Repairs and maintenance	4,787	750	5,537	11,385	-	11,385	16,922
Supplies	11,659	-	11,659	8,733	3,112	11,845	23,504
Bus/van	16,579	-	16,579	-	-	-	16,579
Travel and entertainment	-	-	-	11,698	1,349	13,047	13,047
Utilities	35,086	3,085	38,171	8,837	-	8,837	47,008
Interest	-	-	-	1,574	-	1,574	1,574
Miscellaneous	7,942	-	7,942	10,105	13,273	23,378	31,320
Honor roll trip	7,903	-	7,903	-	-	-	7,903
Christmas store	136,825	-	136,825	-	-	-	136,825
Camp	-	12,171	12,171	-	-	-	12,171
Basketball program	10,836	-	10,836	-	-	-	10,836
Fundraising activities	-	-	-	-	55,090	55,090	55,090
Total	$ 473,155	$ 26,884	$ 500,039	$ 111,441	$ 150,912	$ 262,353	$ 762,392

See accompanying notes to the financial statements.

(1) Nature of operations

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

(2) Summary of significant accounting policies

(a) Basis of presentation

The financial statements of the Organization are presented on the accrual basis.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

(b) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the statement of financial position. Investment income shown in the statement of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions are met or expire in the year in which the income is recognized. All other donor-restricted investment income is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions.

(c) Property and equipment

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

(d) Income taxes

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

(e) Contributed services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and fund-raising activities. The Organization estimates receipt of over 8,100 volunteer hours for the year ended December 31, 2004. No amounts have been reflected in the financial statements for these volunteer services because no objective basis is available to measure the value of such services.

(f) Revenue recognition

Cash contributions are recognized as revenue when received.

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

Contributed property and equipment are recorded at estimated fair value at the date of donation.

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

In-kind contributions of materials are recorded based on their estimated fair value at the date of donation.

(g) Long-lived assets

The carrying values of long-lived assets are reviewed whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based on the undiscounted cash flows of the operating entity or asset over the remaining amortization period, the carrying value of the asset will be reduced to its fair value.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of public support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

(i) Functional allocation of expenses

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

(3) Credit risk and other concentrations

The Organization generally maintains cash on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

(4) Investments

Investments are held by CapTrust Financial Advisors. A summary of investments as of December 31, 2004 is as follows:

Short-term investments	$	10,002
Mutual funds		126,863
Marketable equity securities		405
	$	137,270

The following schedule summarizes the investment income (loss) in the statement of activities for the year ended December 31, 2004:

Interest and dividend income	$	7,143
Net gain on investments		1,883
Fees paid		(357)
	$	8,669

(5) Note payable and line of credit

The Organization has a $45,889 note payable to a bank at December 31, 2004. The note payable bears interest at the bank's 30-day LIBOR index rate plus 1.5% per annum (3.78% at December 31, 2004) and is callable in October 2005. The note is secured by cash and other accounts.

The Organization has a $30,000 line of credit available with a bank at December 31, 2004. The line of credit matures in November 2005 and bears interest at the bank's index rate plus 1.5% (2.66% at December 31, 2004). The line is secured by cash and other accounts of the Organization. There was no outstanding balance on this line at December 31, 2004.

(6) Net assets

Temporarily restricted net assets as of December 31, 2004 are available for the following purposes:

Repair/replacement of roof at the inner city centers	$ 32,667
Acquisition of a new bus	12,000
Volunteer expenses	3,000
	$ 47,667

Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. A summary of the permanently restricted net assets as of December 31, 2004 is as follows:

Ardell Whitehead Endowment Fund	$ 5,000

(7) Program services

(a) Inner City Centers

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

(b) Camp

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

(8) Rental activities

The Organization entered into an agreement to lease the land at the Lindsley Avenue location to Otter Creek Day Care Center, Inc. for $1 each year through September 2026.

The Organization leases office space at the Lindsley Center to S.A.V.E. at $200 per month on a month to month basis. The Organization occasionally rents camp facilities to other organizations.

(9) Donated materials

A summary of donated materials included in the accompanying financial statements for the year ended December 31, 2004 is as follows:

Christmas store	$ 117,175
Operating expenses	2,121
Equipment	1,800
	$ 121,096

(10) Supplemental disclosures of cash flow statement information

Interest paid	$ 1,574