CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006 AND 2005

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

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June 30, 2006 and 2005

PURYEAR, HAMILTON,
HAUSMAN & WOOD, PLC
CERTIFIED PUBLIC ACCOUNTANTS

October 31, 2006

Independent Auditors' Report

To the Board of Directors
Center for Youth Issues - Nashville, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Center for Youth Issues - Nashville, Inc. (the Organization), a nonprofit organization, as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 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 audits 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center for Youth Issues - Nashville, Inc. as of June 30, 2006 and 2005, and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Puryear, Hamilton, Hausman & Wood, PLC

Nashville, Tennessee

JAMES E. HAMILTON, CPA ▪ JEFFREY J. HAUSMAN, CPA ▪ RONALD T. WOOD, CPA ▪ WILLIAM P. PURYEAR, CPA, PFS, CONSULTANT

Suite 1050 ▪ SunTrust Bank Building ▪ P.O. Box 190663 ▪ Nashville, Tennessee 37219-0663 ▪ Phone 615-259-9038 ▪ Fax 615-242-9462

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

Statements of Financial Position

June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 261,481	$ 253,778	$ -	$ 515,259
Investments	551,312	-	-	551,312
Trade receivables	12,602	-	-	12,602
Unconditional promises to give	16,496	439,207	-	455,703
Grants receivable	160,277	-	-	160,277
Prepaid expenses	13,347	-	-	13,347
Total current assets	1,015,515	692,985	-	1,708,500
Property and equipment, net of accumulated depreciation of $77,004	68,497	-	-	68,497
Investments	-	-	167,150	167,150
Total assets	$1,084,012	$ 692,985	$ 167,150	$1,944,147
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 54,165	$ -	$ -	$ 54,165
Accrued wages and benefits	195,690	-	-	195,690
Grants payable	-	21,091	-	21,091
Current portion of capitalized lease	5,276	-	-	5,276
Total current liabilities	255,131	21,091	-	276,222
Long-term portion of capitalized lease	31,573	-	-	31,573
Total liabilities	286,704	21,091	-	307,795
Net assets	797,308	671,894	167,150	1,636,352
Total liabilities and net assets	$1,084,012	$ 692,985	$ 167,150	$1,944,147

See independent auditors' report and accompanying notes to financial statements.

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

Statements of Financial Position (Continued)

June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 143,010	$ 215,931	$ -	$ 358,941
Investments	549,728	-	-	549,728
Trade receivables	29,577	-	-	29,577
Unconditional promises to give	13,958	459,547	-	473,505
Grants receivable	199,139	-	-	199,139
Prepaid expenses	11,262	-	-	11,262
Total current assets	946,674	675,478	-	1,622,152
Property and equipment, net of accumulated depreciation of $72,933	52,005	-	-	52,005
Investments	-	-	167,150	167,150
Total assets	$ 998,679	$ 675,478	$ 167,150	$1,841,307
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 24,099	$ -	$ -	$ 24,099
Accrued wages and benefits	178,663	-	-	178,663
Current portion of capitalized lease	6,149	-	-	6,149
Total current liabilities	208,911	-	-	208,911
Long-term portion of capitalized lease	7,429	-	-	7,429
Total liabilities	216,340	-	-	216,340
Net assets	782,339	675,478	167,150	1,624,967
Total liabilities and net assets	$ 998,679	$ 675,478	$ 167,150	$1,841,307

See independent auditors' report and accompanying notes to financial statements.

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

Statements of Activities and Changes in Net Assets

For the Years Ended June 30, 2006 and 2005

	2006	2005
Unrestricted net assets:		
Support and revenue:		
School contract fees	$1,201,915	$ 999,096
Contributions	190,373	286,631
Program service fees and funding	262,196	165,531
Grants	318,230	314,981
Special events	60,390	106,835
Interest and dividends	42,671	25,021
Leadership retreat	14,390	5,713
Net unrealized and realized gains (losses) on investments	27,475	25,591
Miscellaneous	602	332
Total unrestricted support and revenue	2,118,242	1,929,731
Net assets released from restrictions:		
Expiration of time restrictions	541,876	510,708
Satisfaction of program restrictions	133,602	63,985
Total net assets released from restrictions	675,478	574,693
Total unrestricted support, revenue, and other support	2,793,720	2,504,424
Expenses:		
Program services	2,306,033	1,963,782
Fundraising	185,022	199,657
Management and general	287,696	267,508
Total expenses	2,778,751	2,430,947
Increase (decrease) in unrestricted net assets	14,969	73,477
Temporarily restricted net assets:		
United Way Services	397,791	285,191
Contributions	228,123	297,498
Program service fees and funding	45,980	74,789
Net assets released from restrictions	(675,478)	(574,693)
Increase (decrease) in temporarily restricted net assets	(3,584)	82,785
Increase (decrease) in net assets	11,385	156,262
Net assets at beginning of year	1,624,967	1,468,705
Net assets at end of year	$1,636,352	$1,624,967

See independent auditors' report and accompanying notes to financial statements.

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

Statements of Functional Expenses

For the Year Ended June 30, 2006

	Program Services	Fundraising	Management and General	Total
Personnel expense	$1,954,436	$ 125,781	$ 158,537	$2,238,754
Professional fees	120,941	8,087	21,086	150,114
Audit expense	-	-	10,151	10,151
Supplies	46,933	563	1,409	48,905
Telephone	6,542	672	9,028	16,242
Postage	2,680	1,820	1,636	6,136
Occupancy	34,451	4,531	25,642	64,624
Printing and publications	30,758	16,288	2,190	49,236
Travel, meetings, and conferences	102,998	2,315	2,577	107,890
Insurance	-	-	7,603	7,603
Membership dues and awards	1,165	375	4,244	5,784
Interest expense	-	-	6,289	6,289
Special events	-	23,984	-	23,984
National dues	-	-	5,000	5,000
Investment fees	-	-	8,369	8,369
Miscellaneous expense	5,129	606	2,907	8,642
Total expense before depreciation	2,306,033	185,022	266,668	2,757,723
Depreciation of property and equipment	-	-	21,028	21,028
Total expense	$2,306,033	$ 185,022	$ 287,696	$2,778,751
Percent of total expense	83%	7%	10%	100%

See independent auditors' report and accompanying notes to financial statements.

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

Statements of Functional Expenses (Continued)

For the Year Ended June 30, 2005

	Program Services	Fundraising	Management and General	Total
Personnel expense	$1,685,771	$ 110,974	$ 153,112	$1,949,857
Professional fees	84,299	1,192	16,955	102,446
Audit expense	-	-	9,654	9,654
Supplies	28,388	1,258	8,964	38,610
Telephone	5,570	608	9,420	15,598
Postage	2,845	2,500	1,479	6,824
Occupancy	29,041	4,751	24,877	58,669
Printing and publications	20,062	27,194	(3,978)	43,278
Travel, meetings, and conferences	101,344	3,057	2,347	106,748
Insurance	-	-	7,352	7,352
Membership dues and awards	246	178	3,044	3,468
Interest expense	-	-	4,729	4,729
Special events	-	46,011	-	46,011
National dues	-	-	6,125	6,125
Investment fees	-	-	6,782	6,782
Miscellaneous expense	5,102	117	2,489	7,708
Total expense before depreciation	1,962,668	197,840	253,351	2,413,859
Depreciation of property and equipment	1,114	1,817	14,157	17,088
Total expense	$1,963,782	$ 199,657	$ 267,508	$2,430,947
Percent of total expense	81%	8%	11%	100%

See independent auditors' report and accompanying notes to financial statements.

CENTER FOR YOUTH ISSUES - NASHVILLE, INC.

Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

	2006	2005
Operating activities:		
Increase (decrease) in net assets	$ 11,385	$156,262
Adjustment to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	21,028	17,088
Net unrealized gains on investments	(1,899)	(21,578)
Net realized gains on investments	(25,576)	(4,013)
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give - Unrestricted	(2,538)	(1,965)
(Increase) decrease in unconditional promises to give - Restricted	20,340	(23,135)
(Increase) decrease in trade receivables	16,975	(6,348)
(Increase) decrease in grants receivable	38,862	(58,544)
(Increase) decrease in prepaid expenses	(2,085)	2,873
Increase (decrease) in accounts payable	30,066	(2,145)
Increase (decrease) in accrued wages and benefits	17,027	7,018
Increase (decrease) in grants payable	21,091	-
Net cash provided by (used for) operating activities	144,676	65,513
Investing activities:		
Purchase of property and equipment	(9,176)	(17,271)
(Purchases) sales of investments, net	25,891	(27,736)
Net cash provided by (used for) investing activities	16,715	(45,007)
Financing activities:		
Repayment of capitalized leases	(5,073)	(4,608)
Net cash provided by (used for) financing activities	(5,073)	(4,608)
Increase (decrease) in cash and cash equivalents	156,318	15,898
Cash and cash equivalents at beginning of year	358,941	343,043
Cash and cash equivalents at end of year	$515,259	$358,941
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 6,289	$ 4,729

Non-cash transaction:

During the year ended June 30, 2006, the Organization traded in a used copy machine with a book value of $7,267 for a new copy machine with a book value of $35,611 in exchange for a new capitalized lease of $39,069 and forgiveness of the old lease of $10,725.

See independent auditors' report and accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Center for Youth Issues - Nashville, Inc. (the Organization) was established in 1985 as a nonprofit organization to help students make healthy lifestyle choices and refrain from the use of alcohol, other drugs, and violence in Davidson County and in surrounding counties in Tennessee.

(b) Accrual Basis

The financial statements of the Organization are prepared using the accrual basis of accounting, under which revenues are recognized when earned rather that when collected and expenses are recognized when incurred rather than when disbursed.

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

(c) Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

(Continued)

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

(d) Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

(e) Doubtful Accounts Receivable and Promises to Give

An allowance for doubtful accounts is established through a provision for receivable losses charged to expense. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable and promises to give. There is no allowance for doubtful accounts at June 30, 2006 and 2005. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. Receivables and promises to give are charged against the allowance when management believes the collectibility of the receivable is unlikely. For the years ended June 30, 2006 and 2005, no bad debt expense was recognized. Accounts receivable are considered delinquent after ninety days. Late fees and interest are not assessed on delinquent accounts. It is not the policy of the Organization to place a customer on non-accrual status. At June 30, 2006 and 2005, none of accounts receivable are greater than ninety days old and at June 30, 2006 and 2005, $13,848 and $0, respectively, of promises to give are greater than ninety days old.

(f) Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Such temporarily restricted revenues totaled $671,894 and $657,478 during the years ended June 30, 2006 and 2005, respectively, and are included in temporarily restricted revenues for those years. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There was no permanently restricted revenue for the years ended June 30, 2006 and 2005.

(Continued)

(g) **Use of Estimates**

Management of the Organization has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

(h) **Functional Allocation of Expenses**

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

(i) **Income Taxes**

The Organization has obtained a determination letter from the Internal Revenue Service effective July 1, 2000, which qualifies the Organization as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal or state income taxes. The Organization is not classified as a private foundation.

(j) **Cash Equivalents**

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid instruments with maturities of three months or less to be cash equivalents.

(k) **Investments**

Investments consist of mutual funds and are carried at their fair value.

(l) **Donated Services and Supplies**

Certain contributed supplies and specialized services are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor. Volunteer services, which neither create nor enhance non-financial assets or do not require specialized skills, are not recognized as support.

(2) **Property and Equipment**

Property and equipment are carried at cost or, if donated, at fair market value at the date of gift. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from two to seven years. At June 30, 2006 and 2005, property and equipment are recorded as follows:

(Continued)

	2006	2005
Property and equipment	$145,501	$124,938
Less - Accumulated depreciation	(77,004)	(72,933)
	$ 68,497	$ 52,005

Depreciation expense totaled $21,028 and $17,088 for the years ended June 30, 2006 and 2005, respectively. The Organization capitalizes items that are greater than or equal to $1,000 and expenses items under $1,000.

(3) Leases

The Organization leases office space. The current office space is leased under a five-year operating lease, effective February 1, 2004 through March 31, 2009. Lease expense for the years ended June 30, 2006 and 2005 totaled $62,751 and $58,669, respectively.

Minimum future payments at June 30 under the lease are as follows:

2007	$ 63,678
2008	65,589
2009	50,292
	$179,559

The Organization capitalized the present value of an office equipment lease in the amount of $35,611 and related accumulated depreciation of $3,561.

Minimum future payments at June 30 under the lease are as follows:

2007	$ 13,212
2008	13,212
2009	13,212
2010	13,212
2011	6,606
Minimum payments	59,454
Imputed interest	(22,605)
	36,849
Less - Current portion	(5,276)
Total	$ 31,573

(Continued)

(4) Unconditional Promises to Give

Unconditional promises to give - unrestricted represents pledges for donations relating to the years ended June 30, 2006 and 2005 totaling $16,496 and $13,958, respectively, which are not funded until the subsequent year. Unconditional promises to give - restricted, which are not funded until a subsequent year and are temporarily restricted for use during a subsequent year, represent pledges for donations or grants as follows:

	2006	2005
United Way Services	$418,882	$284,197
Corporations and foundations	15,058	129,350
Davidson County Board of Education	-	40,000
Individuals	5,267	6,000
	$439,207	$459,547
Amounts due in:		
Less than one year	$455,703	$473,505

(5) Pension Plan

The Organization sponsored a 403(b)(7) pension plan covering all full-time salaried employees. The Organization deposited an amount equal to 5% of the participant's annual income into an individual tax shelter annuity established for the employee in the employee's name. This plan was frozen as of August 31, 2002. On September 1, 2002, the Organization adopted a 401(k) profit sharing plan, which covers employees who have completed 1,000 hours of service within twelve months of their commencement date and vest immediately. The Organization makes non-elective safe-harbor contributions to each eligible participant in the amount of 3% of the employee's compensation for the plan year, as well as a 2% match. Total expenses for the 401(k) profit sharing plan for the years ended June 30, 2006 and 2005 were $60,616 and $54,816, respectively, and are included in the Statements of Functional Expenses in personnel expense. At June 30, 2006 and 2005, $5,508 and $4,980, respectively, were unfunded and, therefore, included in accrued wages and benefits.

(Continued)

(6) Temporarily Restricted Net Assets

The temporarily restricted net assets are available for the following purposes or periods:

	2006	2005
For use in the year ended June 30, 2007	$589,604	$ -
For use in the year ended June 30, 2006	-	541,876
Specific programs	82,290	133,602
	$671,894	$675,478

(7) Permanently Restricted Net Assets

Net assets, in the amount of $167,150 at June 30, 2006 and 2005, are permanently restricted for an endowment fund. The interest is unrestricted.

(8) Investments

Investments are stated at fair value and are summarized at June 30 as follows:

	2006			2005		
	Cost	Fair Value	Carrying Value	Cost	Fair Value	Carrying Value
Mutual funds - Equity	$ 90,291	$109,523	$109,523	$113,541	$142,201	$142,201
Mutual funds - Fixed income	91,164	86,771	86,771	88,164	87,629	87,629
Mutual funds - Other	456,187	522,168	522,168	436,252	487,048	487,048
	$637,642	$718,462	$718,462	$637,957	$716,878	$716,878

The amounts invested, market value, and yields for each year at June 30 are summarized as follows:

	2006	2005
Market value	$718,462	$716,878
Carrying value - Cost	(637,642)	(637,957)
Unrealized gain	$ 80,820	$ 78,921
Investment income	$ 42,671	$ 25,021
Net realized gain on sale of investment	25,576	4,013
Trust fees	(8,369)	(6,782)
Realized net investment income	$ 59,878	$ 22,252

(Continued)

(9) Related Party Transactions

The Organization paid annual dues of $5,000 and $6,125, respectively, for the years ended June 30, 2006 and 2005 to Center for Youth Issues, Inc. (National), which is the Organization's national affiliate.

During the years ended June 30, 2006 and 2005, the Organization provided services to National totaling $17,709 and $27,456, respectively, of which $4,210 and $12,196, respectively, is included in trade receivables - unrestricted.

(10) Compensated Absences

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. Vacation and personal days not taken by the end of the Organization's fiscal year are forfeited. It is impracticable for the Organization to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

(11) Donated Services and Equipment

The Organization receives donated services from several unpaid volunteers assisting the Organization in various activities. No amounts have been recognized in the accompanying Statement of Activities because the criteria for recognition of such volunteer effort under Statement of Financial Accounting Standards No. 116 have not been satisfied.

(12) Concentrations of Credit Risk

A significant portion of the Organization's revenue is derived from individuals, organizations, corporations, schools, and foundations in middle Tennessee. The following organizations contributed more than 10% of total unrestricted support, revenue, and other support:

	2006	2005
Williamson County Board of Education	12%	13%
Franklin Special School District	11%	7%

(13) Board Designated Restrictions

The Board has designated $249,062 and $230,234 of investments for the Endowment Fund, which is included in unrestricted net assets at June 30, 2006 and 2005, respectively.

(Continued)

(14) Section 125 Plan

Effective February 1, 2004, the Organization adopted a Section 125 Plan (the Plan). The Plan is a cafeteria plan under Section 125 of the Internal Revenue Code, allowing a choice between cash and certain qualified benefits. Benefits are entirely funded through employee pre-tax deductions and employer contributions used to purchase elected benefits. Benefit options under the Plan consist of medical and dental insurance, which are provided through insurance policies for employees who work at least thirty hours a week, and a flexible spending account.

(15) Risk on Uninsured Cash

At times, the Organization maintains cash balances in excess of the Federal Deposit Insurance Corporation's insured maximum amount of $100,000. There is a risk of loss in the event of bank failure.

(16) Subsequent Events

Effective August 1, 2006, the Alcohol and Drug Council (the ADC) divested themselves of the Youth Alive and Free Program (the Program) in an effort to more closely streamline their programs with their mission statement. The Board of Directors of the Organization agreed to take on the services and contracts of that program. The ADC terminated employment of all current full-time employees who provided service to the Program sites effective July 31, 2006; the Organization re-hired all those same employees effective August 1, 2006. The ADC contacted all funders of the Program and requested that the funding be re-directed to the Organization. The Organization picked up six employees of ADC, in addition to adding two open positions as a result of this transition.

Effective September 1, 2006, the Kids on the Block (the KOB) organization dissolved and the operations were merged into the Organization. All assets and employees of the KOB were transferred to the Organization, with the exception of the KOB Executive Director. The Organization will continue to provide services using the KOB name based on availability of funding.