

CHILDREN ARE PEOPLE, INC.
Financial Statements
June 30, 2005 and 2004

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Independent Auditors' Report

To the Board of Directors
Children Are People, Inc.
Gallatin, Tennessee

We have audited the statements of financial position of Children Are People, Inc. (a nonprofit corporation) as of June 30, 2005 and 2004, and the related statements of activities, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 Children Are People, Inc. as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

November 30, 2005

Parker, Parker & Associates

CHILDREN ARE PEOPLE, INC.
Statements of Financial Position
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets		
Cash	\$ 33,837	\$ 64,681
Accounts Receivable	893	-
Prepaid Insurance	5,423	4,374
Total Current Assets	<u>40,153</u>	<u>69,055</u>
Property and Equipment		
Vehicles	18,090	2,500
Library Books	6,993	-
Less: Accumulated Depreciation	<u>(3,730)</u>	<u>(29)</u>
Total Property and Equipment	<u>21,353</u>	<u>2,471</u>
Total Assets	<u><u>\$ 61,506</u></u>	<u><u>\$ 71,526</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 1,521	\$ 74
Related Party Payable	2,362	226
Payroll Deductions Payable	830	735
Total Current Liabilities	<u>4,713</u>	<u>1,035</u>
Net Assets		
Unrestricted	50,608	48,880
Temporarily Restricted	6,185	21,611
Total Net Assets	<u>56,793</u>	<u>70,491</u>
Total Liabilities and Net Assets	<u><u>\$ 61,506</u></u>	<u><u>\$ 71,526</u></u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Statements of Activities
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Unrestricted Net Assets		
Public Support		
Contributions	\$ 45,328	\$ 16,079
Memorial Foundation	-	50,000 ✓
Fundraising Events	-	1,075
Donated Assets and Services	62,052	62,950
Total Public Support	<u>107,380</u>	<u>130,104</u>
 Net Assets Released From Restrictions	 21,286	 1,149
Total Public Support and Reclassifications	<u>128,666</u>	<u>131,253</u>
 Expenses		
Program Services	101,851	79,022
Management and General	19,846	15,686
Fundraising	5,241	4,730
Total Expenses	<u>126,938</u>	<u>99,438</u>
 Increase in Unrestricted Net Assets	 <u>1,728</u>	 <u>31,815</u>
 Temporarily Restricted Net Assets		
Public Support		
Dollar General Literacy Foundation	-	12,760
RR Donnelley Foundation	-	10,000
Camp Donations	5,860	-
Net Assets Released From Restrictions	<u>(21,286)</u>	<u>(1,149)</u>
(Decrease) Increase in Temporarily Restricted Net Assets	<u>(15,426)</u>	<u>21,611</u>
 (Decrease) Increase in Net Assets	 (13,698)	 53,426
 Net Assets - Beginning of Year	 <u>70,491</u>	 <u>17,065</u>
 Net Assets - End of Year	 <u>\$ 56,793</u>	 <u>\$ 70,491</u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Statements of Functional Expenses
For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Supporting Services				Supporting Services			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Tutors	\$ 30,098	\$ -	\$ -	\$ 30,098	\$ 22,560	\$ -	\$ -	\$ 22,560
✓ Accounting/Audit <i>4,000</i>	-	13,600	-	13,600	-	9,600	-	9,600
Salaries	6,000	3,726	3,000	12,726	6,000	3,000	3,000	12,000
Insurance	11,455	-	-	11,455	4,304	-	-	4,304
Rent	10,200	-	-	10,200	8,400	-	-	8,400
Field Trips and Camps	9,563	-	-	9,563	6,144	-	-	6,144
Student Gifts	7,037	-	-	7,037	9,353	-	-	9,353
Transportation	5,275	-	-	5,275	1,346	-	-	1,346
Food and Kitchen Supplies	3,977	-	-	3,977	3,668	-	-	3,668
Depreciation	3,701	-	-	3,701	29	-	-	29
Supplies and Books	2,998	340	-	3,338	5,262	1,534	-	6,796
T-Shirts	2,330	-	-	2,330	1,474	-	-	1,474
Utilities	2,100	-	-	2,100	1,200	-	-	1,200
Repairs and Maintenance	2,076	-	-	2,076	420	-	-	420
Fundraising	-	-	2,002	2,002	-	-	-	-
Van Gas and Maintenance	1,473	-	-	1,473	1,016	-	-	1,016
Payroll Taxes	479	240	239	958	459	230	230	918
Telephone	353	352	-	705	412	412	-	823
Advertising and Promotions	-	669	-	669	-	-	-	-
Minor Equipment	640	-	-	640	5,171	-	-	5,171
Board of Directors	-	615	-	615	-	421	-	421
Printing	573	-	-	573	736	232	-	968
Volunteer Recognition	510	-	-	510	400	-	-	400
Internet	385	-	-	385	-	-	-	-
Postage	342	-	-	342	242	-	-	242
Licenses and Permits	-	181	-	181	-	40	-	40
Dues and Subscriptions	150	-	-	150	150	-	-	150
Housekeeping	136	-	-	136	278	-	-	278
Bank Charges	-	123	-	123	-	199	-	199
Consulting	-	-	-	-	-	-	1,500	1,500
Contributions	-	-	-	-	-	20	-	20
Total Expenses	<u>\$ 101,851</u>	<u>\$ 19,846</u>	<u>\$ 5,241</u>	<u>\$ 126,938</u>	<u>\$ 79,022</u>	<u>\$ 15,686</u>	<u>\$ 4,730</u>	<u>\$ 99,438</u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities		
(Decrease) Increase in Net Assets	\$ (13,698)	\$ 53,426
Adjustments to Reconcile (Decrease) Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,701	29
(Increase) in Accounts Receivable	(893)	-
(Increase) in Prepaid Insurance	(1,049)	(4,374)
Increase in Accounts Payable	1,447	74
Increase (Decrease) in Related Party Payable	2,136	(826)
Increase in Payroll Liabilities	95	735
Total Adjustments	<u>5,437</u>	<u>(4,362)</u>
Net Cash (Used) Provided by Operating Activities	<u>(8,261)</u>	<u>49,064</u>
Cash Flows from Investing Activities		
Cash Payments for the Purchase of Property	<u>(22,583)</u>	<u>(2,500)</u>
Net Cash Used in Investing Activities	<u>(22,583)</u>	<u>(2,500)</u>
 Net (Decrease) Increase in Cash	 (30,844)	 46,564
 Cash - Beginning of Year	 <u>64,681</u>	 <u>18,117</u>
 Cash - End of Year	 <u>\$ 33,837</u>	 <u>\$ 64,681</u>

See independent auditors' report and notes to financial statements.

Note 1. Summary of Significant Accounting Policies

A. Organization and Nature of Activities

Children Are People, Inc. ("CAP") is a nonprofit 501(c)(3) corporation registered in Tennessee. CAP's purpose is to assist at-risk children and their families with developing academic and life skills in order to produce responsible, self-sufficient adults who contribute to the community.

B. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Financial Statement Presentation

The net assets of CAP and changes therein are classified and reported in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as follows:

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of CAP and/or the passage of time.

D. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes cash on hand, demand deposits and investments with initial maturities of three months or less. CAP currently has no cash equivalents.

F. Fixed Assets

Fixed Assets with a useful life greater than one year and a purchase price of more than \$1,000 are carried at cost if purchased or approximate fair market value if donated. Contributed property and equipment is recorded at fair value at the date of donation. If a donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from 5-7 years.

G. Income Taxes

CAP is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

H. Functional Expenses

Expenses are charged directly to program, management and general, or fundraising based on specific identification and allocation by management.

I. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All 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.

CHILDREN ARE PEOPLE, INC.
Notes to Financial Statements - Continued
June 30, 2005 and 2004

Note 1. Summary of Significant Accounting Policies - Continued

J. Reclassifications

Certain reclassifications have been made to the financial statements as of and for the year ended June 30, 2004 to conform to 2005 presentation.

K. Advertising Costs

Advertising costs are expensed when incurred. Advertising cost for the printing of brochures of \$669 and \$736 was expensed during the years ended June 30, 2005 and 2004, respectively.

Note 2. Donated Materials, Services, Facilities and Assets

Donated materials, services, facilities and assets are used in the ongoing operations of CAP. Contributed services are reflected in the financial statements at the fair value of the services received in accordance with SFAS No. 116 *Accounting for Contributions Received and Contributions Made*. This standard requires that contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) requires specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The value of donated materials, services, facilities and assets included in the financial statements and the corresponding expense or asset capitalization for the years ended June 30, 2005 and 2004 are as follows:

Revenues		
	2005	2004
Donated Goods	\$ 5,294	\$ 20,938
Donated Services	44,458	32,412
Donated Office Space	12,300	9,600
	<u>\$ 62,052</u>	<u>\$ 62,950</u>
Expenses		
	2005	2004
Accounting	\$ 9,600	\$ 9,600
Board of Directors	70	290
Food	286	172
Minor Equipment	350	4,996
Rent	10,200	8,400
Special Events	312	-
Student Gifts	1,275	9,303
Supplies	671	4,232
Transportation	4,760	1,297
T-Shirts	2,330	900
Tutors	30,098	22,560
Utilities	2,100	1,200
	<u>\$ 62,052</u>	<u>\$ 62,950</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist CAP with specific programs and fundraising. No amounts have been reflected in the financial statements for these donated services since volunteers' time does not meet the criteria for recognition under SFAS No. 116.

Note 3. Concentrations

For the year ended June 30, 2005, CAP received 15% of its funding from a single source. During 2004, 90% of CAP's funding was received from only four sources.

CHILDREN ARE PEOPLE, INC.
Notes to Financial Statements - Continued
June 30, 2005 and 2004

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose as of June 30, 2005 and 2004:

Donor	Purpose	2005	2004
Dollar General Literacy Foundation	Reading Programs	\$ 4,239	\$ 11,611
RR Donnelley Foundation	Research Library	1,946	10,000
Total		<u>\$ 6,185</u>	<u>\$ 21,611</u>

Note 5. Related Party Transactions

During 2005 and 2004, various board members were reimbursed \$3,790 and \$4,126 for expenses incurred for CAP. At June 30, 2005 and 2004, \$2,362 and \$226 was payable to board members for reimbursements.