

**NEIGHBORHOODS RESOURCE CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2006 AND 2005**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Neighborhoods Resource Center

We have audited the accompanying statements of financial position of the Neighborhoods Resource Center (a Tennessee not-for-profit corporation, the "Center") as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center'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 audit 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 Neighborhoods Resource Center as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blankenship CPA Group, PLLC

November 8, 2006

**NEIGHBORHOODS RESOURCE CENTER
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005**

ASSETS			
		2006	2005
Cash and cash equivalents		\$ 100,345	\$ 82,690
Accounts receivable		19,234	3,598
Equipment, net		19,159	40,686
Prepaid expenses		492	-
Deposits		50	50
		<u>50</u>	<u>50</u>
Total assets		<u>\$ 139,280</u>	<u>\$ 127,024</u>
LIABILITIES AND NET ASSETS			
Accounts payable		\$ 8,253	\$ 972
Accrued expenses		9,188	6,836
Deferred revenue		13,995	22,968
		<u>13,995</u>	<u>22,968</u>
Total liabilities		<u>31,436</u>	<u>30,776</u>
Net assets:			
Unrestricted		95,916	55,795
Temporarily restricted (note 3)		11,928	40,453
		<u>11,928</u>	<u>40,453</u>
Total net assets		<u>107,844</u>	<u>96,248</u>
Total liabilities and net assets		<u>\$ 139,280</u>	<u>\$ 127,024</u>

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

**NEIGHBORHOODS RESOURCE CENTER
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
SUPPORT AND REVENUE:		
Grant revenue	\$ 203,644	\$ 160,287
Contributions	51,913	38,769
Program fees	48,509	20,150
Investment income	1,199	872
Miscellaneous income	524	2,041
Net assets released from restrictions	<u>28,525</u>	<u>43,886</u>
 Total support and revenue	 <u>334,314</u>	 <u>266,005</u>
EXPENSES:		
Program services:		
Information and Technology Services	84,273	94,870
Organizing and Support Services	135,015	111,555
Training and Capacity Building Services	49,632	50,821
Other	<u>444</u>	<u>40</u>
 Total program services	 <u>269,364</u>	 <u>257,286</u>
Management and general	23,549	23,956
Fundraising	<u>1,280</u>	<u>1,692</u>
 Total expenses	 <u>294,193</u>	 <u>282,934</u>
 Increase (decrease) in unrestricted net assets	 <u>40,121</u>	 <u>(16,929)</u>
 Temporarily restricted net assets:		
Net assets released from restrictions:		
Depreciation of contributed equipment	<u>(28,525)</u>	<u>(43,886)</u>
 Decrease in temporarily restricted net assets	 <u>(28,525)</u>	 <u>(43,886)</u>
 Increase (decrease) in net assets	 11,596	 (60,815)
Net assets, beginning of year	<u>96,248</u>	<u>157,063</u>
Net assets, end of year	<u><u>\$ 107,844</u></u>	<u><u>\$ 96,248</u></u>

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

**NEIGHBORHOODS RESOURCE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006**

	Program Services					Management and General	Fundraising	Total
	Information and Technology Services	Organizing and Support Services	Training and Capacity Building Services	Other	Total			
Salaries	\$ 37,405	\$ 85,751	\$ 32,076	\$ 332	\$ 155,564	\$ 10,460	\$ -	\$ 166,024
Payroll taxes	5,175	11,863	4,438	46	21,522	1,447	-	22,969
Employee benefits	2,404	5,511	2,061	21	9,997	672	-	10,669
Total payroll and related expense	44,984	103,126	38,574	399	187,083	12,579	-	199,662
Professional fees	-	364	-	-	364	3,850	-	4,214
Supplies	519	1,191	445	5	2,160	145	-	2,305
Telephone	698	1,559	571	-	2,828	127	-	2,955
Postage	505	3,179	511	-	4,195	47	1,094	5,336
Occupancy	4,986	11,130	4,077	-	20,193	907	-	21,100
Repairs and maintenance	1,153	-	-	-	1,153	491	-	1,644
Printing	602	927	412	-	1,941	115	186	2,242
Travel and meetings	2,783	6,379	2,386	25	11,573	778	-	12,351
Utilities	1,319	2,945	1,079	-	5,343	240	-	5,583
Technology	838	1,922	719	7	3,486	234	-	3,720
Depreciation	24,885	-	-	-	24,885	3,755	-	28,640
Miscellaneous	1,001	2,293	858	8	4,160	281	-	4,441
	\$ 84,273	\$ 135,015	\$ 49,632	\$ 444	\$ 269,364	\$ 23,549	\$ 1,280	\$ 294,193

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

**NEIGHBORHOODS RESOURCE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2005**

	Program Services					Management and General	Fundraising	Total
	Information and Technology Services	Organizing and Support Services	Training and Capacity Building Services	Other	Total			
Salaries	\$ 32,710	\$ 74,805	\$ 35,196	\$ -	\$ 142,711	\$ 13,485	\$ -	\$ 156,196
Payroll taxes	3,935	8,998	4,234	-	17,167	1,621	-	18,788
Employee benefits	2,677	6,122	2,880	-	11,679	1,104	-	12,783
Total payroll and related expense	39,322	89,925	42,310	-	171,557	16,210	-	187,767
Professional fees	-	1,023	-	-	1,023	3,700	-	4,723
Supplies	363	887	366	-	1,616	234	-	1,850
Telephone	705	1,722	711	-	3,138	68	-	3,206
Postage	122	297	123	-	542	111	1,642	2,295
Occupancy	4,378	10,695	4,418	-	19,491	1,309	-	20,800
Repairs and maintenance	-	-	-	-	-	468	-	468
Printing	782	1,911	789	-	3,482	410	50	3,942
Travel and meetings	691	1,688	697	-	3,076	243	-	3,319
Utilities	1,142	2,790	1,152	-	5,084	110	-	5,194
Technology	2,134	-	-	-	2,134	178	-	2,312
Depreciation	44,979	-	-	-	44,979	87	-	45,066
Miscellaneous	252	617	255	40	1,164	828	-	1,992
	\$ 94,870	\$ 111,555	\$ 50,821	\$ 40	\$ 257,286	\$ 23,956	\$ 1,692	\$ 282,934

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

**NEIGHBORHOODS RESOURCE CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 11,596	\$ (60,815)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	28,640	45,066
Increase in accounts receivable	(15,636)	(2,809)
Increase in prepaid expenses	(492)	-
Increase (decrease) in accounts payable	7,281	(6,391)
Increase in accrued expenses	2,352	870
Increase (decrease) in deferred revenue	<u>(8,973)</u>	<u>18,176</u>
Net cash provided by (used in) operating activities	<u>24,768</u>	<u>(5,903)</u>
Cash flows from investing activities:		
Additions to equipment	<u>(7,113)</u>	<u>-</u>
Net cash used in investing activities	<u>(7,113)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	17,655	(5,903)
Cash and cash equivalents, beginning of year	<u>82,690</u>	<u>88,593</u>
Cash and cash equivalents, end of year	<u><u>\$ 100,345</u></u>	<u><u>\$ 82,690</u></u>

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

**NEIGHBORHOODS RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Neighborhoods Resource Center (the "Center") is a private not-for-profit corporation chartered under the laws of the State of Tennessee to assist residents of various neighborhoods, primarily in low-income areas, in the formation and/or development of neighborhood organizations that identify and take action on issues affecting their neighborhoods. The Center assists residents by providing information, leadership training, consulting and supportive services, and by forming collaborative relationships with, and providing support to, institutions that serve neighborhoods.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Center does not have any permanently restricted net assets.

Use of Estimates

The preparation of 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.

Revenue Recognition

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

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 statements of activities as net assets released from restrictions.

**NEIGHBORHOODS RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Center considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents during the year may exceed Federal Deposit Insurance Corporation ("FDIC") limits.

Accounts Receivable Valuation

Accounts receivable are considered by management to be fully collectible, thus no valuation allowance has been recorded.

Equipment

Purchased equipment is recorded at cost, and donated equipment is recorded at fair market value. Contributions of cash that must be used to acquire equipment are reported as restricted support. Absent donor stipulation regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is provided over the estimated useful lives of 3 – 7 years on a straight-line basis.

Deferred Revenue

Deferred revenue includes certain amounts received in advance and are reflected as liabilities. Revenue is recorded when earned pursuant to the terms of the underlying contract.

Income Tax Status

Neighborhoods Resource Center is exempt from federal income tax under Internal Revenue Code section 501 (c)(3). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Functional Classification of Expenses

The following program services are included in the accompanying financial statements:

Information and Technology Services provide neighborhood-level community asset and liability information to neighborhood organizations and the government and nonprofit agencies that serve neighborhoods, in both tabular and graphical formats by using the Geographic Information System. These services also include the deployment of computer systems and training to neighborhood and ethnic community groups for use in their community development activities.

**NEIGHBORHOODS RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Classification of Expenses (Continued)

Organizing and Support Services provide neighborhood residents and groups with hands on organizational development assistance. This support is designed to engage neighborhood residents in the development of a neighborhood organization that identifies its community goals, takes focused action to achieve its goals, and produces a group of neighborhood leaders with the capacity to carry on their community development work. This area also includes the Strategic Partnership Services which provide government and social service agencies with a nonprofit partner that brings a neighborhood perspective to specific community development projects that are city-wide or multi-neighborhood in nature.

Training and Capacity Building Services consist of the Neighborhood Leadership Training Institute and customized capacity building workshops. These programs are designed to provide residents with the knowledge and skills necessary to take the leading role in identifying and addressing the needs of their neighborhood.

Contributed Services

The Center receives a significant amount of donated services from unpaid volunteers. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition set forth by accounting principles generally accepted in the United States of America.

NOTE 2 - EQUIPMENT

Equipment consists of the following:

	2006	2005
Office equipment	\$ 26,613	\$ 20,108
Computer equipment	<u>185,667</u>	<u>185,061</u>
	212,280	205,169
Less accumulated depreciation	<u>(193,121)</u>	<u>(164,483)</u>
	<u>\$ 19,159</u>	<u>\$ 40,686</u>

**NEIGHBORHOODS RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2006 AND 2005**

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

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

	2006	2005
Time restrictions on computer equipment	<u>\$ 11,928</u>	<u>\$ 40,453</u>

NOTE 4 - RETIREMENT PLAN

The Center has a defined contribution retirement plan available to employees with at least one year of service. Costs for the years ended June 30, 2006 and 2005 were \$4,811 and \$4,541, respectively.

NOTE 5 - CONTRIBUTED FACILITIES

The Center recognized rental expense of \$20,700 for the years ended June 30, 2006 and 2005, for facilities provided by a governmental agency at no charge to the Center. A like amount of contribution income was recognized.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Center receives a substantial amount of its support from government and the United Way. Support from United Way for the years ended June 30, 2006 and 2005 was approximately 43.0% and 52.8%, respectively, of total support and revenue. A significant reduction in the level of this support, if this were to occur, may have an affect on the Center's programs and activities.