

YOUTH ENCOURAGEMENT SERVICES

Financial Statements

December 31, 2006

(With Independent Auditors' Report Thereon)



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

YOUTH ENCOURAGEMENT SERVICES

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to the Financial Statements	6 - 10



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, 2006, 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, 2006, and the changes in its net assets 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, PC

Brentwood, Tennessee
June 26, 2007

YOUTH ENCOURAGEMENT SERVICES

Statement of Financial Position

December 31, 2006

Assets

Current assets:	
Cash	\$ 182,760
Investments	144,221
Prepaid expenses	<u>6,605</u>
Total current assets	<u>333,586</u>
Property and equipment, net:	
Land	106,236
Land improvements	14,822
Buildings	570,579
Furniture, fixtures and equipment	89,554
Vehicles	<u>131,985</u>
	913,176
Accumulated depreciation	<u>(344,404)</u>
Property and equipment, net	<u>568,772</u>
	<u>\$ 902,358</u>

Liabilities and Net Assets

Current liabilities:	
Line of credit	\$ 79,052
Note payable	38,915
Accounts payable	14,666
Accrued expenses	<u>1,473</u>
Total current liabilities	<u>134,106</u>
Net assets:	
Unrestricted	677,572
Temporarily restricted	85,680
Permanently restricted	<u>5,000</u>
Total net assets	<u>768,252</u>
	<u>\$ 902,358</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Activities

Year ended December 31, 2006

Changes in unrestricted net assets:

Public support and revenue:

Public support:

Individual support	\$ 270,282
Congregational support	81,994
Corporate support	22,733
Foundations	32,182
In-kind donations	124,075
Fundraising revenue	<u>253,983</u>

Total public support 785,249

Revenue:

Rental income	300
Interest income	14,094
Investment income	39,288
Miscellaneous income	<u>3,975</u>

Total revenue 57,657

Total public support and revenue 842,906

Expenses:

Program services	674,877
Supporting services	<u>359,916</u>

Total expenses 1,034,793

Decrease in unrestricted net assets (191,887)

Changes in temporarily restricted net assets-

Contributions 71,714

Decrease in net assets (120,173)

Net assets at beginning of year 888,425

Net assets at end of year \$ 768,252

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Cash Flows

Year ended December 31, 2006

Cash flows from operating activities:	
Decrease in net assets	
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	49,992
Loss on disposal of equipment	1,283
Net gain on investments	(25,218)
Donated investments	(35,271)
(Increase) decrease in operating assets:	
Prepaid expenses	(600)
Deposits	23,023
Increase (decrease) in operating liabilities:	
Accounts payable	(3,107)
Accrued expenses	1,473
Total adjustments	11,575
Net cash used by operating activities	(108,598)
Cash flows from investing activities:	
Purchases of property and equipment	(37,065)
Proceeds from sale of investments	62,458
Net cash provided by investing activities	25,393
Cash flows from financing activities:	
Proceeds from line of credit, net	79,052
Proceeds from note payable	13,282
Payments of note payable	(9,287)
Net cash provided by financing activities	83,047
Decrease in cash	(158)
Cash at beginning of year	182,918
Cash at end of year	\$ 182,760

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Functional Expenses

Year ended December 31, 2006

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	\$ 153,479	\$ 15,015	\$ 168,494	\$ 49,431	\$ 23,530	\$ 72,961	\$ 241,455
Housing and auto allowance	50,630	-	50,630	12,713	12,713	25,426	76,056
Payroll taxes	14,557	1,157	15,714	4,788	2,793	7,581	23,295
Advertising and promotion	-	-	-	-	5,750	5,750	5,750
Employee related expenses	-	-	-	2,443	-	2,443	2,443
Scholarships and awards	9,000	-	9,000	-	-	-	9,000
Insurance	43,999	-	43,999	6,656	6,656	13,312	57,311
Depreciation	40,227	-	40,227	9,765	-	9,765	49,992
Dues and subscriptions	275	-	275	-	-	-	275
Printing and publications	10,367	-	10,367	10,367	10,398	20,765	31,132
Postage	3,862	-	3,862	2,827	3,862	6,689	10,551
Professional services	5,411	-	5,411	5,411	5,428	10,839	16,250
Repairs and maintenance	36,670	2,204	38,874	2,802	-	2,802	41,676
Supplies	8,760	-	8,760	14,145	4,237	18,382	27,142
Bus/van	28,956	-	28,956	-	-	-	28,956
Travel and entertainment	-	-	-	22,253	5,599	27,852	27,852
Utilities	63,204	2,748	65,952	9,176	-	9,176	75,128
Interest	-	-	-	6,812	-	6,812	6,812
Miscellaneous	11,926	-	11,926	41,047	4,360	45,407	57,333
Honor roll trip	1,517	-	1,517	-	-	-	1,517
Christmas store	137,617	-	137,617	-	-	-	137,617
Camp	-	18,734	18,734	-	-	-	18,734
Blessing fund	11,773	-	11,773	-	-	-	11,773
Basketball program	2,789	-	2,789	-	-	-	2,789
Fundraising activities	-	-	-	-	73,954	73,954	73,954
Total	\$ 635,019	\$ 39,858	\$ 674,877	\$ 200,636	\$ 159,280	\$ 359,916	\$ 1,034,793

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2006

(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 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.

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2006

(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 estimated 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 approximately 10,000 volunteer hours for the year ended December 31, 2006. 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.

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2006

(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) Risks, uncertainties 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.

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

(4) Investments

Investments are held by CapTrust Financial Advisors. A summary of investments as of December 31, 2006 is as follows:

Money market funds	\$ 857
Mutual funds	113,070
Common stocks	<u>30,294</u>
	<u>\$ 144,221</u>

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2006

The following schedule summarizes the investment income (loss) in the statement of activities for the year ended December 31, 2006:

Interest and dividend income	\$ 14,070
Net gain on investments	<u>25,218</u>
	<u>\$ 39,288</u>

(5) Note payable and line of credit

The Organization has a \$38,915 note payable to a bank in monthly installments of \$1,333 at December 31, 2006. The note payable bears interest at the bank's 30-day LIBOR index rate plus 1.5% per annum (5.33% at December 31, 2006) and is callable in October 2007. The note is secured by cash and other accounts.

The Organization has a \$95,000 line of credit available with a bank at December 31, 2006. The line of credit matures in November 2007 and bears interest at the bank's index rate plus 1.5% (5.33% at December 31, 2006) and is payable monthly. The line is secured by cash and other accounts of the Organization. The outstanding balance on this line at December 31, 2006 amounted to \$79,052.

(6) Net assets

Temporarily restricted net assets as of December 31, 2006 are available for the following purposes:

Acquisition of new computers	\$ 20,680
Acquisition of bus	15,000
Renovation of centers	<u>50,000</u>
	<u>\$ 85,680</u>

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, 2006 is as follows:

Ardell Whitehead Endowment Fund	<u>\$ 5,000</u>
---------------------------------	-----------------

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2006

(7) Program services

(a) Inner City Centers

Three centers are available on a daily basis to inner city children. The three 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.

In the prior year the Organization leased office space at the Lindsley Center to S.A.V.E. at \$200 per month on a month to month basis. S.A.V.E. did not lease the office space during 2006. 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, 2006 is as follows:

Christmas store	\$ 123,425
Operating expenses	<u>650</u>
	<u>\$ 124,075</u>

(10) Supplemental disclosures of cash flow statement information

Interest paid	\$ <u>6,812</u>
---------------	-----------------