YOUTH ENCOURAGEMENT SERVICES

FINANCIAL STATEMENTS

December 31, 2011 and 2010

YOUTH ENCOURAGEMENT SERVICES

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FRASIERDEAN HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Youth Encouragement Services
Nashville, Tennessee

We have audited the accompanying statements of financial position of Youth Encouragement Services (a nonprofit organization) as of December 31, 2011 and 2010, 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.

As more fully described in Note 2 to the financial statements, certain land and buildings are stated at estimated appraised value as of December 31, 1994 in the accompanying statements 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 in the first paragraph present fairly, in all material respects, the financial position of Youth Encouragement Services as of December 31, 2011 and 2010, and the 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.

Frasier, Dean & Howard, PLLC

April 4, 2012

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash	$ 201,112	$ 188,750
Investments	125,255	205,552
Accounts receivable	131	1,861
Total current assets	326,498	396,163
Property and equipment, net:		
Land	106,236	106,236
Land improvements	11,466	11,466
Buildings	608,914	608,914
Furniture, fixtures and equipment	102,584	96,162
Vehicles	191,350	210,504
	1,020,550	1,033,282
Less accumulated depreciation	(542,141)	(513,977)
Property and equipment, net	478,409	519,305
Total assets	$ 804,907	$ 915,468
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 15,298	$ 18,095
Line of credit	-	21,000
Total liabilities	15,298	39,095
Net assets:		
Unrestricted	592,842	653,359
Temporarily restricted	86,767	113,014
Permanently restricted	110,000	110,000
Total net assets	789,609	876,373
Total liabilities and net assets	$ 804,907	$ 915,468

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Public support:				
Individual support	$ 365,128	$ -	$ -	$ 365,128
Fundraising revenue	130,851	-	-	130,851
Corporate support	61,744	28,300	-	90,044
In-kind donations	68,195	-	-	68,195
Congregational support	36,233	-	-	36,233
Government grant	16,666	-	-	16,666
Registration fees	2,353	-	-	2,353
Total public support	681,170	28,300	-	709,470
Revenues:				
Miscellaneous income	982	-	-	982
Interest income	13	-	-	13
Investment income	(21,792)	-	-	(21,792)
Total revenues	(20,797)	-	-	(20,797)
Net assets released from restrictions	54,547	(54,547)	-	-
Total public support and revenues	714,920	(26,247)	-	688,673
Expenses:				
Program services	579,042	-	-	579,042
Management and general	134,417	-	-	134,417
Fundraising	61,978	-	-	61,978
Total expenses	775,437	-	-	775,437
Change in net assets	(60,517)	(26,247)	-	(86,764)
Net assets at beginning of year	653,359	113,014	110,000	876,373
Net assets at end of year	$ 592,842	$ 86,767	$ 110,000	$ 789,609

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Public support:				
Individual support	$ 176,187	$ 1,375	$ -	$ 177,562
Fundraising revenue	167,806	-	-	167,806
Corporate support	57,245	78,000	-	135,245
Congregational support	60,087	-	-	60,087
In-kind donations	48,792	-	-	48,792
Government grant	6,134	-	-	6,134
Registration fees	3,979	-	-	3,979
Total public support	520,230	79,375	-	599,605
Revenues:				
Investment income	33,553	-	-	33,553
Miscellaneous income	4,429	-	-	4,429
Interest income	148	-	-	148
Total revenues	38,130	-	-	38,130
Net assets released from restrictions	111,676	(111,676)	-	-
Total public support and revenues	670,036	(32,301)	-	637,735
Expenses:				
Program services	537,145	-	-	537,145
Management and general	121,838	-	-	121,838
Fundraising	64,777	-	-	64,777
Total expenses	723,760	-	-	723,760
Change in net assets	(53,724)	(32,301)	-	(86,025)
Net assets at beginning of year	707,083	145,315	110,000	962,398
Net assets at end of year	$ 653,359	$ 113,014	$ 110,000	$ 876,373

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	$ 185,310	$ 4,205	$ 189,515	$ 40,796	$ 6,698	$ 47,494	$ 237,009
Housing allowance	63,595	-	63,595	17,280	5,670	22,950	86,545
Insurance	40,245	-	40,245	18,415	-	18,415	58,660
Christmas store (including $54,490 in-kind)	54,509	-	54,509	1,570	-	1,570	56,079
Professional services	24,795	-	24,795	6,994	23,000	29,994	54,789
Depreciation	47,318	-	47,318	-	-	-	47,318
Utilities	33,786	-	33,786	9,093	-	9,093	42,879
Supplies (including $13,010 in-kind)	20,980	-	20,980	11,229	-	11,229	32,209
Fundraising activities (including $695 in-kind)	-	-	-	-	23,899	23,899	23,899
Miscellaneous	8,966	-	8,966	12,638	-	12,638	21,604
Travel, meals and entertainment	20,879	-	20,879	377	-	377	21,256
Bus and van	19,010	-	19,010	637	-	637	19,647
Payroll taxes	12,652	-	12,652	2,181	364	2,545	15,197
Scholarships and awards	10,650	-	10,650	-	-	-	10,650
Honor roll trip	8,165	-	8,165	1,200	-	1,200	9,365
Repairs and maintenance	8,145	-	8,145	1,161	-	1,161	9,306
Basketball program	7,433	-	7,433	-	-	-	7,433
Printing and publications	-	-	-	5,570	713	6,283	6,283
Postage	39	-	39	4,016	1,634	5,650	5,689
Camp	-	5,482	5,482	-	-	-	5,482
Program materials	2,878	-	2,878	-	-	-	2,878
Dues and subscriptions	-	-	-	1,070	-	1,070	1,070
Interest	-	-	-	190	-	190	190
Total	$ 569,355	$ 9,687	$ 579,042	$ 134,417	$ 61,978	$ 196,395	$ 775,437

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2010

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	$ 153,690	$ 4,477	$ 158,167	$ 51,005	$ 13,199	$ 64,204	$ 222,371
Housing allowance	71,632	-	71,632	7,838	7,838	15,676	87,308
Depreciation	56,398	-	56,398	-	-	-	56,398
Professional services (including $1,200 in-kind)	21,801	-	21,801	13,354	18,000	31,354	53,155
Christmas store (including $46,725 in-kind)	46,725	-	46,725	5,930	-	5,930	52,655
Insurance	40,518	-	40,518	9,973	1,563	11,536	52,054
Utilities	32,328	-	32,328	9,378	-	9,378	41,706
Fundraising activities	-	-	-	-	20,472	20,472	20,472
Bus and van	19,639	-	19,639	341	-	341	19,980
Scholarships and awards	17,075	-	17,075	-	-	-	17,075
Travel, meals and entertainment (including $867 in-kind)	16,911	-	16,911	547	34	581	17,492
Payroll taxes	11,656	-	11,656	3,620	1,010	4,630	16,286
Miscellaneous	7,594	-	7,594	6,399	5	6,404	13,998
Supplies	5,883	-	5,883	5,852	-	5,852	11,735
Basketball program	7,732	-	7,732	-	-	-	7,732
Honor roll trip	7,219	-	7,219	-	-	-	7,219
Repairs and maintenance	6,739	-	6,739	435	-	435	7,174
Printing and publications	-	-	-	4,554	1,597	6,151	6,151
Camp	-	5,661	5,661	-	-	-	5,661
Program materials	3,414	-	3,414	-	-	-	3,414
Postage	53	-	53	1,485	1,059	2,544	2,597
Dues and subscriptions	-	-	-	740	-	740	740
Interest	-	-	-	387	-	387	387
Total	$ 527,007	$ 10,138	$ 537,145	$ 121,838	$ 64,777	$ 186,615	$ 723,760

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	2011	**2010**
Cash flows from operating activities:		
Change in net assets	$ (86,764)	$ (86,025)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation	47,318	56,398
Net loss (gain) on investments	21,792	(33,553)
Donated investments	(9,735)	(1,985)
Changes in operating assets and liabilities:		
Accounts receivable	1,730	(1,861)
Prepaid exenses and other	-	2,164
Accounts payable and accrued expenses	(2,797)	(5,832)
Net cash used in operating activities	(28,456)	(70,694)
Cash flows from investing activities:		
Purchases of property and equipment	(6,422)	(7,372)
Purchase of investments	-	(8,031)
Proceeds from sale of investments	68,240	9,518
Net cash provided by (used in) investing activities	61,818	(5,885)
Cash flows from financing activities:		
Proceeds from borrowings on line of credit	-	21,000
Payments on line of credit	(21,000)	-
Payments of note payable	-	(8,666)
Net cash (used in) provided by financing activities	(21,000)	12,334
Increase (decrease) in cash	12,362	(64,245)
Cash at beginning of year	188,750	252,995
Cash at end of year	$ 201,112	$ 188,750
Supplemental disclosure of cash flow information:		
Interest paid	$ 190	$ 387

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS

Youth Encouragement Services (the "Organization") was incorporated as a nonprofit 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 churches.

Program Services:

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.

Camp

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets 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. 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.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations 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 for unrestricted purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support and shown as increases in the respective net asset class.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured.

Investments

Investments in money market funds and marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position. See further discussion of fair value measurements in Note 3.

Investment income and unrealized gains and losses are reported as changes in unrestricted net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials, Services and Assets

The following donations are reflected as contributions in the accompanying statements at their estimated values at date of receipt for the years ended December 31:

	2011	2010
Christmas store	$ 54,490	$ 46,725
Program items	13,010	-
Fundraising activities	695	-
Professional services	-	1,200
Food	-	867
	$ 68,195	$ 48,792

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. The Organization estimates receipt of approximately 11,000 and 12,000 volunteer hours for the years ended December 31, 2011 and 2010, respectively. However, these services do not meet the requirements above and have not been recorded in the accompanying financial statements.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows FASB ASC guidance related to unrecognized tax benefits which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2008 through 2011.

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.

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

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.

Advertising

Advertising costs are expensed as incurred. There was no advertising expense for the years ended December 31, 2011 and 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based upon management's estimate among the programs and supporting services benefited.

Restricted Endowment Funds

The Uniform Prudent Management Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

Subsequent Events

The Organization evaluated subsequent events through April 4, 2012, when these financial statements were available to be issued. Other than described in Note 8 the Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization has adopted the fair value measurement guidelines of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Level 2 Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. A description of the valuation methodologies used for assets measured at fair value is as follows:

Mutual Funds: Valued at the net asset value ("NAV") of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds:				
Gold and precious metals	$ 51,938	$ -	$ -	$ 51,938
Long-term growth	48,178	-	-	48,178
Unconstrained bond	21,029	-	-	21,029
Total mutual funds	121,145	-	-	121,145
Common stocks:				
Proshares Trust	4,110	-	-	4,110
Total assets at fair value	$ 125,255	$ -	$ -	$ 125,255

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

	2010			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Gold and precious metals	$ 96,407	$ -	$ -	$ 96,407
Long-term growth	57,290	-	-	57,290
Unconstrained bond	31,895	-	-	31,895
Developing markets	19,960	-	-	19,960
Total assets at fair value	$ 205,552	$ -	$ -	$ 205,552

The following schedule summarizes the investment income (loss) in the statements of activities for the years ended December 31:

	2011	2010
Interest and dividend income	$ 13	$ 11,773
Net gain (loss) on investments	(21,792)	21,780
	$ (21,779)	$ 33,553

NOTE 4 – LINE OF CREDIT

During 2011, the Organization extended a $100,000 line of credit agreement with a bank. The line bears interest at prime plus 1%, is secured by cash and other accounts of the Organization, and matures August 2012. There were no amounts outstanding at December 31, 2011. Amounts outstanding under this line of credit totaled $21,000 at December 31, 2010. Subsequent to December 31, 2011, the Organization moved its line of credit to another bank. See Note 8.

NOTE 5 – NET ASSETS

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

	2011	2010
Afterschool program	$ 43,720	$ 38,857
Capital campaign	33,873	54,333
Scholarship	9,174	19,824
	$ 86,767	$ 113,014

NOTE 5 – NET ASSETS (Continued)

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 is as follows:

	2011	2010
General Endowment Fund	$ 105,000	$ 105,000
Ardell Whitehead Endowment Fund	5,000	5,000
	$ 110,000	$ 110,000

The interest earned on permanently restricted net assets is available to the Organization on an unrestricted basis.

The Organization's endowment consists of donor restricted gifts held in investment accounts. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Changes in Endowment Net Assets for the fiscal year ended December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 46,904	$ -	$ 110,000	$ 156,904
Appropriated for expenditure	(25,000)	-	-	(25,000)
Investment return:				
Net depreciation (realized and unrealized)	(22,630)	-	-	(22,630)
Endowment net assets, end of year	$ (726)	$ -	$ 110,000	$ 109,274

Changes in Endowment Net Assets for the fiscal year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 18,570	$ -	$ 110,000	$ 128,570
Investment return:				
Net appreciation (realized and unrealized)	28,334	-	-	28,334
Endowment net assets, end of year	$ 46,904	$ -	$ 110,000	$ 156,904

NOTE 5 – NET ASSETS (Continued)

Interpretation of Relevant Law

The Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature totaled $726 as of December 31, 2011. There were no deficiencies of this nature as of December 31, 2010.

Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

Under the Organization's policy, as approved by the Board of Directors, endowment assets are invested primarily in equity securities.

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 5 – NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating dividend and interest income from the endowment fund as necessary to fund Organization programs provided the investment balance is greater than the original gift value. Specific agreements with donors for income taken relative to their specific endowment gifts are exempted.

NOTE 6 – GOVERNMENT GRANT

During 2010, the Organization was awarded a grant totaling $22,800 from the Metropolitan Government of Nashville and Davidson County with a grant term of July 1, 2010 through June 30, 2011. In conjunction with this grant $16,666 and $6,134 is included as grant revenue in the accompanying 2011 and 2010 statements of activities, respectively.

NOTE 7 – RISKS, UNCERTAINTIES AND OTHER CONSIDERATIONS

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 such changes could materially affect the amounts reported in the statements of financial position.

NOTE 8 – SUBSEQUENT EVENT

Subsequent to December 31, 2011, the Organization moved its banking services to a different financial institution. In conjunction with this move, the Organization entered into a new line of credit agreement. The line of credit allows for maximum borrowings of $100,000, matures February 15, 2013 and bears interest at the bank's prime rate plus 1%.