

**CREATING AN ENVIRONMENT OF SUCCESS, INC.
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
OCTOBER 31, 2004 AND 2003**

CREATING AN ENVIRONMENT OF SUCCESS, INC.

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**INDEPENDENT AUDITORS' REPORT ON THE BASIC
FINANCIAL STATEMENTS**

To the Board of Directors
Creating an Environment of Success, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of *Creating an Environment of Success, Inc.* (a not-for-profit organization) as of October 31, 2004 and 2003, and the related statements of activities, cash flows, and functional expenses 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 generally accepted auditing standards 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.

As discussed in Note 4 to the financial statements, the taking of physical inventories was not performed by the Organization at October 31, 2004 and a reasonable allowance has not been established for excess, obsolete, slow-moving and defective inventory at October 31, 2004 to conform with generally accepted accounting principles in the United States of America. We were unable to satisfy ourselves concerning inventory on hand, stated at \$41,657 as of October 31, 2004. The effects of this departure on the financial statements are not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of *Creating an Environment of Success, Inc.* as of October 31, 2004 and 2003, and changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Hoskins Co. P.C.

Hoskins & Company, P. C.
March 22, 2005

CREATING AN ENVIRONMENT OF SUCCESS INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Current assets		
Cash and cash equivalents	\$ 13,709	\$ 7,785
Cash - restricted	10,000	-
Cash and cash equivalents - building fund	5,854	6,801
Investments	8,524	14,197
Inventories	41,657	-
Accounts receivable (net of allowance for doubtful accounts of \$78,542 and \$61,763)	20,444	8,413
Pledges receivable (net of allowance for doubtful pledges of \$16,059 and \$27,965)	91,001	95,081
Total current assets	<u>191,189</u>	<u>132,277</u>
Noncurrent assets		
Investment in real estate	10,900	10,900
Investment in dry-cleaning business	32,073	31,950
Security Deposit	19,920	-
Property and equipment		
Land	65,000	65,000
Business training center	809,537	809,537
Vehicles	54,234	28,475
Furniture and equipment	26,110	8,669
Restaurant equipment	19,038	18,690
Computer and printer	23,543	23,135
Leasehold Improvement	18,000	-
Office Equipment	1,072	-
All Things Possible Equipment	18,493	-
Accumulated depreciation	<u>(237,187)</u>	<u>(179,440)</u>
Total property and equipment	<u>797,840</u>	<u>774,066</u>
Total noncurrent assets	<u>860,733</u>	<u>816,916</u>
Total Assets	<u><u>\$ 1,051,922</u></u>	<u><u>\$ 949,193</u></u>

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

CREATING AN ENVIRONMENT OF SUCCESS INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 98,971	\$ 73,688
Current portion of long term debt	201,666	36,280
Rent deposits	5,913	5,913
Payroll taxes payable	5,856	1,035
Sales tax payable	2,404	2,212
Other Liabilities	176	-
Total current liabilities	<u>314,986</u>	<u>119,128</u>
Noncurrent liabilities		
Notes payable and line of credit	956,674	1,011,881
Lease obligation	17,145	-
Total noncurrent liabilities	<u>973,819</u>	<u>1,011,881</u>
Unrestricted Net Assets	(337,884)	(276,897)
Temporarily restricted net assets	101,001	95,081
Total Net Assets	<u>(236,883)</u>	<u>(181,816)</u>
Total Liabilities and Net Assets	<u><u>\$ 1,051,922</u></u>	<u><u>\$ 949,193</u></u>

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

CREATING AN ENVIRONMENT OF SUCCESS INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Changes in Unrestricted Net Assets		
Revenues and support		
Contributions	\$ 254,833	\$ 139,919
Donation-Inventories	171,308	-
New York Summer Business	114,000	-
Training centers income	222,859	252,261
Investment Income	2,299	-
Business camp	104,650	77,125
Awards Banquet	39,617	38,025
Special events	594	11,718
Membership dues	350	460
Interest & Investment income	135	158
Unrealized gain on investments	707	2,857
Net assets released from restrictions	4,080	47,989
	<u>915,432</u>	<u>570,512</u>
EXPENSES		
General and administrative	138,879	108,245
Training centers expense	802,534	509,289
Membership expense	3,344	22,345
Total program and administrative expenses	<u>944,757</u>	<u>639,879</u>
Fundraising expenses	14,201	21,272
Uncollectible dues & pledges	16,059	43,302
Unrealized loss on investments	1,402	3,956
	<u>976,419</u> ✓	<u>708,409</u>
Change in Temporarily Restricted Net Assets		
Contributions	10,000	143,070
Net assets released from restrictions	<u>(4,080)</u>	<u>(47,989)</u>
	<u>5,920</u>	<u>95,081</u>
Decrease in Net Assets	(55,067)	(42,816)
Net Assets, Beginning of Year	<u>(181,816)</u>	<u>(139,000)</u>
Net Assets, End of Year	<u>\$ (236,883)</u>	<u>\$ (181,816)</u>

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

CREATING AN ENVIRONMENT OF SUCCESS INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (55,067)	\$ (42,816)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,747	39,470
(Increase) decrease in inventories	(41,657)	-
(Increase) decrease in accounts receivable	(12,031)	71,574
(Increase) decrease in pledges receivable	4,080	(95,081)
(Increase) decrease in Other assets	(19,920)	-
(Decrease) increase in accounts payable	25,283	13,341
(Decrease) increase in other accrued liabilities	5,013	(513)
Net cash used by operating activities	<u>(36,552)</u>	<u>(14,025)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(81,521)	(26,217)
Investments	(123)	(1,650)
Change in investment value	(1,510)	1,235
Proceeds from sale of investment	7,183	35,641
Net cash (used) provided by investing activities	<u>(75,971)</u>	<u>9,009</u>
Cash flows from financing activities:		
Proceeds from note	140,000	15,414
Proceeds from capital lease	25,798	-
Principal payments on notes and capital lease	(38,298)	(59,670)
Net cash provided (used) in financing activities	<u>127,500</u>	<u>(44,256)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,977	(49,272)
Cash and Cash Equivalents at Beginning of Year	14,586	63,858
Cash and Cash Equivalents at End of Year	<u>\$ 29,563</u>	<u>\$ 14,586</u>
Interest Paid	<u>\$ 42,617</u>	<u>\$ 39,863</u>

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

CREATING AN ENVIRONMENT OF SUESS, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED OCTOBER 31, 2004

	General and Administrative	Training Center	Membership	Total
Payroll-Officers	\$ 24,000	\$ 24,000	\$ -	\$ 48,000
Payroll-Other	36,798	143,834	-	180,632
Payroll Taxes	3,415	13,347	-	16,762
Executive Allowances	9,412	-	-	9,412
Security	-	1,027	-	1,027
Membership Relations	-	-	2,956	2,956
Automobile	2,958	4,987	-	7,945
Bank Charges	2,066	-	-	2,066
Contract Labor	1,464	30,392	50	31,906
Contributions	13,500	-	-	13,500
Dues and Subscriptions	1,085	220	-	1,305
Insurance	7,575	13,385	-	20,960
Interest and Penalties	6,384	36,233	-	42,617
Licenses and Permits	40	531	-	571
Board Meetings	695	-	-	695
New York Business Camp	-	69,993	-	69,993
Nashville Summer Business Camp	-	75,448	-	75,448
YAB Lawn Care Operations	-	525	-	525
YAB Speciality Co.	36	4,363	-	4,399
YAB Resturant Division	-	54,165	-	54,165
YAB Investement Club	-	578	-	578
Youth About Business	-	29,157	-	29,157
YAB Real Estate Compay	872	-	-	872
All Things Possible Bargain Center	3,487	40,681	-	44,168
YAB Programming Expense-Other	2,800	8,308	-	11,108
Advertising and Marketing	-	2,843	-	2,843
Miscellaneous	3,857	303	-	4,160
YAB Supplies-Resale	-	534	-	534
Office Supplies	2,773	5,593	-	8,366
Postage and Delivery	422	8,184	-	8,606
Printing and Reproduction	201	4,505	88	4,794
Professional Fees	4,620	4,953	-	9,573
Contract Services	103	29,851	-	29,954
Scholarship	50	2,900	250	3,200
Rent	-	37,132	-	37,132
Repairs and Maintenance	549	11,598	-	12,147
Waste Disposal Services	59	6,930	-	6,989
Rental	688	2,210	-	2,898
Electronic Sales Expense	-	1,670	-	1,670
Unemployment Taxes	1,020	980	-	2,000
Telephone	7,884	3,772	-	11,656
Travel And Entertainment	66	852	-	918
Utilities	-	38,331	-	38,331
Sales Tax Expense	-	16,165	-	16,165
Property Taxes	-	13,819	-	13,819
Personalty Taxes	-	488	-	488
Depreciation Expenses	-	57,747	-	57,747
Total Expense	<u>\$ 138,879</u>	<u>\$802,534</u>	<u>\$ 3,344</u>	<u>\$ 944,757</u>

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

CREATING AN ENVIRONMENT OF SUCESS, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED OCTOBER 31, 2003

	General and Administrative	Training Center	Membership	Total
Payroll - officers	\$ 24,000	\$ 24,000	\$ -	\$ 48,000
Payroll - other	19,539	72,859	10,438	102,836
Payroll taxes	3,331	6,939	1,028	11,298
Advertising	-	5,683	-	5,683
Automobile	1,963	218	-	2,181
Bank charges	1,476	-	1,113	2,589
Business allowance	9,750	-	-	9,750
Contract labor	2,050	37,505	3,873	43,428
Contract services	-	2,400	-	2,400
Contributions	6,104	321	-	6,425
Dues and subscriptions	722	71	-	793
Insurance	5,751	9,792	-	15,543
Interest and penalties	3,250	36,613	-	39,863
Licenses and permits	101	302	-	403
Miscellaneous	4,293	1,141	-	5,434
Membership relations	-	-	3,526	3,526
Office supplies	1,794	1,078	715	3,587
Equipment rental	1,918	1,087	-	3,005
Postage and delivery	934	400	460	1,794
Printing and reproduction	908	1,482	232	2,622
Professional fees	9,237	3,246	-	12,483
Property taxes	-	13,819	-	13,819
Personalty taxes	-	463	-	463
Rent	-	21,600	-	21,600
Security	362	362	-	724
Repairs and maintenance	1,334	10,797	-	12,131
Telephone	4,820	3,279	960	9,059
Utilities	3,029	15,905	-	18,934
Depreciation	1,579	37,891	-	39,470
Sales tax expense	-	10,525	-	10,525
Catering	-	72,893	-	72,893
Summer business camp	-	84,295	-	84,295
Technology center	-	2,675	-	2,675
Youth About Business	-	29,648	-	29,648
	<u>\$ 108,245</u>	<u>\$ 509,289</u>	<u>\$ 22,345</u>	<u>\$ 639,879</u>

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

CREATING AN ENVIRONMENT OF SUCESS, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – *Creating an Environment of Sucess, Inc.* (The Organization) was established as a not-for-profit entity, which is organized for the purpose of promoting values of entrepreneurship, and self-empowerment in under served communities.

The Organization currently operates a catering service, a summer business camp, a technology center, youth business program and retail store. The Organization opened the retail store in fiscal year 2004. All items sold in the store are donated by individuals.

Basis of Presentation - The financial statements have been prepared on the accrual basis of accounting and in conformity with generally accepted accounting principles in the United States of America.

Support and Expenses - Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Depreciation - Fixed assets are recorded at cost at the date of purchase, or fair value at the date of donation. Depreciation is taken on a straight-line basis over the estimated useful life of the assets. The estimated life of fixed assets are as follows:

Building	30 years
Vehicles	3-5 years
Office machinery and equipment	3-7 years
Improvements	5 years

CREATING AN ENVIRONMENT OF SUCESS, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

Income Taxes - The Organization is a nonprofit corporation whose revenue is mainly derived primarily from contributions and other fund-raising activities and is not subject to federal income taxes under Section 501 (c) (3) of the Internal Revenue Code of 1986. Therefore, no provisions for income taxes are included.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash held in checking accounts and money market accounts. The Organization considers all liquid investments with a maturity date of three months or less when purchased to be cash and cash equivalents. At year-end and throughout the year, The Organization's cash balances were deposited in several bank and investment accounts. The Organization is required to maintain a separate bank account to cover debt service payments on their line of credit. The balance of this account at October 31, 2004 and 2003, was \$5,854 and \$6,801 respectively.

Investments - Investments in equity securities with readily determinable fair values are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Inventories – Inventory values are estimated based on subsequent sales. This method is consistently applied and is not expected to be materially different from that determined using a more detailed measurement of the inventory's fair value.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 FUNCTIONAL EXPENSE ALLOCATION

The cost of providing various programs and services have been allocated to reflect the specific cost in the statement of functional expenses, and are summarized in the statement of activities.

CREATING AN ENVIRONMENT OF SUCESS, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

NOTE 3 INVESTMENTS

Investments, stated at fair value, include:

	<u>2004</u>	<u>2003</u>
Various stocks	\$774	\$6,447

Investments, stated at par value, include:

	<u>7,750</u>	<u>7,750</u>
Preferred stock		
Total Investments	<u>\$ 8,524</u>	<u>\$14,197</u>

NOTE 4 INVENTORY

A physical inventory was not performed as of October 31, 2004. Inventories, consisting of donated items used for resale purposes in the retail store, was valued based on subsequent sales of inventory through December 15, 2004. Inventory is stated at \$41,657 as of October 31, 2004.

An allowance for obsolete, slow-moving, excessive and defective inventory has not been determined and is not included in the financial statements as of October 31, 2004.

NOTE 5 PLEDGES RECEIVABLE

	<u>2004</u>	<u>2003</u>
Pledges receivable (due in less than one year)	\$ 69,340	\$ 39,060
Pledges receivable (due in one to five years)	37,720	72,800
Less: Allowance for doubtful pledges	(16,059)	(16,779)
Net Pledges Receivable	<u>\$ 91,001</u>	<u>\$ 95,081</u>

NOTE 6 LINE OF CREDIT AND NOTES PAYABLE

Loans and notes payable as of October 31, 2004 and 2003, include the following:

- \$1,052,000 loan agreement with a financial institution collateralized by property at 3510-40 West Hamilton Road, Nashville, TN, with an interest rate of 3.133%. The balance at October 31, 2004 and 2003 was \$991,389 and \$1,021,377 respectively.

CREATING AN ENVIRONMENT OF SUCESS, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

- A note payable to a Florida limited partnership, with an interest rate of approximately 18%. The note is amortized over a ten year period and matures September 2011. The note is collateralized by a timeshare property. The balance at October 31, 2004 and October 31, 2003 was \$8,905 and \$9,497 respectively.
- A note payable to a financial services company with an interest rate of approximately 4%. The note is amortized over a five year period and matures June 28, 2008. A vehicle owned by the Organization is pledged as collateral. The balance as of October 31, 2004 and October 31, 2003 was \$11,597 and 14,479 respectively.
- A promissary note issued to a financial institution for \$140,000 with an intial interest rate of 4.25%. The loan will be due in one amount including principal plus accrued interest on March 1, 2005. The loan is guaranteed by an individual supporter. (See **Note 10** - Subsequent Events)

Summaries of the estimated principal maturities over the next five years are as follows:

October 31, 2005:	\$ 195,217
October 31, 2006:	57,573
October 31, 2007:	60,048
October 31, 2008:	61,508
October 31, 2009:	61,875
Thereafter	715,670

NOTE 7 CAPITAL LEASE

In 2004 fiscal year the Organization entered into a 47-month capital lease agreement for the lease of vehicle-Isuzu Truck NPR. The lease is scheduled to end on July 07, 2008. The principal balance on the lease at October 31, 2004 was \$23, 594. The future minimum lease payments are as follows:

October 31, 2005	\$ 6,449
October 31, 2006	6,449
October 31, 2007	6,449
October 31, 2008	4,247

CREATING AN ENVIRONMENT OF SUCESS, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2004 AND 2003

NOTE 8 CONCENTRATION OF RISK

The Organization receives a considerable portion of its revenues and support from contributions and donations from individuals and corporations. A significant decrease in this support could have an adverse impact on the Organization's operations.

NOTE 9 CONTINGENT LIABLITIES

The Organization has applied for an exemption from property tax payment that has been outstanding since 2002. The balance of property tax at October 31, 2004 and 2003 was \$50,354 and \$36,535 respectively.

NOTE 10 SUBSEQUENT EVENTS

The Organization is in the process of refinancing the promissory note obtained from Pinnacle National Bank. The note has an outstanding balance of \$140,000 with 4.25% interest rate.