

YOUTH ENCOURAGEMENT SERVICES

Financial Statements

December 31, 2005

(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

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, 2005, 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, 2005, and the results of its activities 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, P.C.

Brentwood, Tennessee
June 19, 2006

Nashville

LPMC Financial Center • 5250 Virginia Way
P.O. Box 1869 • Brentwood, TN 37024-1869
615-377-4600 • Fax 615-309-2500

www.lbmc.com

Knoxville

9125 Cross Park Drive, Suite 200
Knoxville, TN 37923-4553
865-694-4008 • Fax 865-694-8231

YOUTH ENCOURAGEMENT SERVICES

Statement of Financial Position

December 31, 2005

Assets

Current assets:

Cash	\$ 182,918
Investments	146,190
Prepaid expenses	<u>6,005</u>
Total current assets	<u>335,113</u>

Property and equipment, net:

Land	106,236
Land improvements	14,822
Buildings	571,707
Furniture, fixtures and equipment	91,350
Vehicles	<u>123,784</u>
	907,899
Accumulated depreciation	<u>(324,918)</u>

Property and equipment, net 582,981

Deposits	<u>23,023</u>
	<u>\$ 941,117</u>

Liabilities and Net Assets

Current liabilities:

Note payable	\$ 34,919
Accounts payable	<u>17,773</u>
Total current liabilities	<u>52,692</u>

Net assets:

Unrestricted	869,459
Temporarily restricted	13,966
Permanently restricted	<u>5,000</u>
Total net assets	<u>888,425</u>
	<u>\$ 941,117</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Activities

Year ended December 31, 2005

Changes in unrestricted net assets:

Public support and revenue:

Public support:

Individual support	\$ 338,304
Congregational support	71,365
Corporate support	19,068
Foundations	60,023
In-kind donations	116,855
Fundraising revenue	<u>233,941</u>

Total public support 839,556

Revenue:

Rental income	2,471
Interest income	144
Investment income	25,331
Miscellaneous income	<u>2,727</u>

Total revenue 30,673

Satisfaction of restrictions 47,667

Total public support and revenue 917,896

Expenses:

Program services	557,824
Supporting services	<u>299,116</u>

Total expenses 856,940

Increase in unrestricted net assets 60,956

Changes in temporarily restricted net assets:

Contributions	13,966
Net assets released from restrictions	<u>(47,667)</u>

Decrease in temporarily restricted assets (33,701)

Increase in net assets 27,255

Net assets at beginning of year 861,170

Net assets at end of year \$ 888,425

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Cash Flows

Year ended December 31, 2005

Cash flows from operating activities:	
Increase in net assets	\$ <u>27,255</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	45,607
Loss on disposal of equipment	9,001
Net gain on investments	(15,729)
Donated investments	(3,165)
Increase in operating assets:	
Prepaid expenses	(4,296)
Deposits	(23,023)
Decrease in operating liabilities:	
Accounts payable	(24,491)
Accrued expenses	<u>(3,605)</u>
Total adjustments	<u>(19,701)</u>
Net cash provided by operating activities	<u>7,554</u>
Cash flows from investing activities:	
Purchases of property and equipment	(64,009)
Proceeds from sale of investments	<u>9,973</u>
Net cash used by investing activities	<u>(54,036)</u>
Cash flows from financing activities - payments of note payable	<u>(10,970)</u>
Decrease in cash	(57,452)
Cash at beginning of year	<u>240,370</u>
Cash at end of year	\$ <u>182,918</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Functional Expenses

Year ended December 31, 2005

	Inner City <u>Centers</u>	<u>Camp</u>	Total Program <u>Services</u>	Management and <u>General</u>	<u>Fundraising</u>	Total Supporting <u>Services</u>	Grand <u>Total</u>
Salaries and wages	\$ 110,623	\$ 9,867	\$ 120,490	\$ 33,781	\$ 31,568	\$ 65,349	\$ 185,839
Housing and auto allowance	34,026	-	34,026	12,025	12,029	24,054	58,080
Payroll taxes	10,034	751	10,785	3,489	3,320	6,809	17,594
Employee related expenses	-	-	-	2,743	-	2,743	2,743
Scholarships and awards	10,162	-	10,162	-	-	-	10,162
Insurance	35,943	-	35,943	11,616	11,616	23,232	59,175
Depreciation	40,276	-	40,276	5,331	-	5,331	45,607
Printing and publications	17,243	-	17,243	17,243	3,526	20,769	38,012
Postage	855	-	855	190	855	1,045	1,900
Professional services	5,571	-	5,571	5,571	5,587	11,158	16,729
Repairs and maintenance	9,529	3,827	13,356	4,387	-	4,387	17,743
Supplies	7,557	-	7,557	4,360	3,761	8,121	15,678
Bus/van	26,447	-	26,447	-	-	-	26,447
Travel and entertainment	-	-	-	13,732	3,370	17,102	17,102
Utilities	42,662	4,499	47,161	7,519	-	7,519	54,680
Interest	-	-	-	1,748	-	1,748	1,748
Miscellaneous	11,265	-	11,265	19,662	14,585	34,247	45,512
Honor roll trip	5,255	-	5,255	-	-	-	5,255
Christmas store	135,009	-	135,009	-	-	-	135,009
Camp	-	16,629	16,629	-	-	-	16,629
Blessing fund	9,620	-	9,620	-	-	-	9,620
Basketball program	10,174	-	10,174	-	-	-	10,174
Fundraising activities	-	-	-	-	65,502	65,502	65,502
Total	<u>\$ 522,251</u>	<u>\$ 35,573</u>	<u>\$ 557,824</u>	<u>\$ 143,397</u>	<u>\$ 155,719</u>	<u>\$ 299,116</u>	<u>\$ 856,940</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2005

(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, 2005

(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 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 over 10,000 volunteer hours for the year ended December 31, 2005. 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, 2005

(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, 2005 is as follows:

Short-term investments	\$ 3,274
Mutual funds	<u>142,916</u>
	<u>\$ 146,190</u>

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2005

The following schedule summarizes the investment income (loss) in the statement of activities for the year ended December 31, 2005:

Interest and dividend income	\$ 9,686
Net gain on investments	15,729
Fees paid	<u>(84)</u>
	<u>\$ 25,331</u>

(5) Note payable and line of credit

The Organization has a \$34,919 note payable to a bank at December 31, 2005. The note payable bears interest at the bank's 30-day LIBOR index rate plus 1.5% per annum (5.79% at December 31, 2005) and is callable in October 2006. The note is secured by cash and other accounts.

The Organization has a \$30,000 line of credit available with a bank at December 31, 2005. The line of credit matures in November 2006 and bears interest at the bank's index rate plus 1.5% (5.79% at December 31, 2005). The line is secured by cash and other accounts of the Organization. There was no outstanding balance on this line at December 31, 2005.

(6) Net assets

Temporarily restricted net assets as of December 31, 2005 are available for the following purposes:

Acquisition of new computers	\$ <u>13,966</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, 2005 is as follows:

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

(7) Program services

(a) Inner City Centers

Two centers are available on a daily basis to inner city children. The two 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.

YOUTH ENCOURAGEMENT SERVICES

Notes to the Financial Statements

December 31, 2005

(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.

The Organization leases office space at the Lindsley Center to S.A.V.E. at \$200 per month on a month to month basis. 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, 2005 is as follows:

Christmas store	\$ 116,225
Operating expenses	<u>630</u>
	<u>\$ 116,855</u>

(10) Supplemental disclosures of cash flow statement information

Interest paid	<u>\$ 1,748</u>
---------------	-----------------