YOUTH ENCOURAGEMENT SERVICES

FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 financial statements of Youth Encouragement Services (a nonprofit organization), which comprise the statements of financial position as December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As more fully described in Note 2 to the financial statements, certain land and buildings are stated at estimated appraisal 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. In our opinion, such assets should be stated at acquisition cost, net of depreciation on buildings, to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practices are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of valuing land and buildings at appraisal value, as discussed in the Basis for Qualified Opinion 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dean + Howard, PLLC

Nashville, Tennessee
April 2, 2013

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 116,233	$ 201,112
Investments	95,970	125,255
Accounts receivable	3,907	131
Total current assets	216,110	326,498
Property and equipment, net:		
Land	106,236	106,236
Land improvements	20,471	11,466
Buildings	605,663	608,914
Furniture, fixtures and equipment	107,222	102,584
Vehicles	174,161	191,350
	1,013,753	1,020,550
Less accumulated depreciation	(545,437)	(542,141)
Property and equipment, net	468,316	478,409
Total assets	$ 684,426	$ 804,907
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,836	$ 15,298
Total current liabilities	13,836	15,298
Noncurrent liabilities:		
Line of credit	54,000	-
Total liabilities	67,836	15,298
Net assets:		
Unrestricted	465,910	592,842
Temporarily restricted	40,680	86,767
Permanently restricted	110,000	110,000
Total net assets	616,590	789,609
Total liabilities and net assets	$ 684,426	$ 804,907

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Public support:				
Individual support	$ 238,755	$ -	$ -	$ 238,755
Fundraising revenue	133,990	-	-	133,990
Corporate support	51,880	51,140	-	103,020
In-kind donations	62,293	-	-	62,293
Congregational support	34,671	-	-	34,671
Government grant	14,131	-	-	14,131
Registration fees	2,184	-	-	2,184
Total public support	537,904	51,140	-	589,044
Revenues:				
Investment income	4,563	-	-	4,563
Miscellaneous income	898	-	-	898
Interest income	92	-	-	92
Loss on disposal of property and equipment	(2,325)	-	-	(2,325)
Total revenues	3,228	-	-	3,228
Net assets released from restrictions	97,227	(97,227)	-	-
Total public support and revenues	638,359	(46,087)	-	592,272
Expenses:				
Program services	576,754	-	-	576,754
Management and general	115,424	-	-	115,424
Fundraising	73,113	-	-	73,113
Total expenses	765,291	-	-	765,291
Change in net assets	(126,932)	(46,087)	-	(173,019)
Net assets at beginning of year	592,842	86,767	110,000	789,609
Net assets at end of year	$ 465,910	$ 40,680	$ 110,000	$ 616,590

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 loss	(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 FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	$ 173,895	$ 3,125	$ 177,020	$ 29,106	$ 13,363	$ 42,469	$ 219,489
Housing allowance	84,061	-	84,061	19,328	9,061	28,389	112,450
Christmas store							
(including $59,740 in-kind)	60,564	-	60,564	758	-	758	61,322
Insurance	42,856	-	42,856	11,292	-	11,292	54,148
Professional services	22,116	-	22,116	6,238	24,000	30,238	52,354
Utilities	38,018	-	38,018	9,752	-	9,752	47,770
Depreciation	30,330	-	30,330	8,555	-	8,555	38,885
Fundraising activities	-	-	-	-	24,857	24,857	24,857
Bus and van	19,959	-	19,959	2,186	-	2,186	22,145
Travel, meals and entertainment	17,516	-	17,516	138	-	138	17,654
Miscellaneous	7,818	-	7,818	8,903	-	8,903	16,721
Scholarships and awards	15,000	-	15,000	1,250	-	1,250	16,250
Supplies							
(including $2,553 in-kind)	7,756	-	7,756	8,295	-	8,295	16,051
Payroll taxes	12,069	-	12,069	1,437	674	2,111	14,180
Repairs and maintenance	12,623	-	12,623	-	-	-	12,623
Camp	-	7,779	7,779	-	-	-	7,779
Basketball program	7,677	-	7,677	-	-	-	7,677
Honor roll trip	7,491	-	7,491	-	-	-	7,491
Printing and publications	-	958	958	3,521	538	4,059	5,017
Program materials	4,456	-	4,456	462	-	462	4,918
Postage	-	617	617	2,714	620	3,334	3,951
Interest	-	-	-	839	-	839	839
Dues and subscriptions	70	-	70	650	-	650	720
Total	$ 564,275	$ 12,479	$ 576,754	$ 115,424	$ 73,113	$ 188,537	$ 765,291

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
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	**2011**
Cash flows from operating activities:		
Change in net assets	$ (173,019)	$ (86,764)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation	38,885	47,318
Net loss on disposal of property and equipment	2,325	-
Net (gain) loss on investments	(4,563)	21,792
Donated investments	(3,617)	(9,735)
Changes in operating assets and liabilities:		
Accounts receivable	(3,776)	1,730
Accounts payable and accrued expenses	(1,462)	(2,797)
Net cash used in operating activities	(145,227)	(28,456)
Cash flows from investing activities:		
Proceeds from sale of investments	38,848	68,240
Proceeds from sale of fixed assets	500	-
Purchase of investments	(1,383)	-
Purchases of property and equipment	(31,617)	(6,422)
Net cash provided by investing activities	6,348	61,818
Cash flows from financing activities:		
Proceeds from borrowings on line of credit	54,000	-
Payments on line of credit	-	(21,000)
Net cash provided by (used in) financing activities	54,000	(21,000)
(Decrease) increase in cash	(84,879)	12,362
Cash at beginning of year	201,112	188,750
Cash at end of year	$ 116,233	$ 201,112
Supplemental disclosure of cash flow information:		
Interest paid	$ 839	$ 190

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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:

	2012	2011
Christmas store	$ 59,740	$ 54,490
Program supplies	2,553	13,010
Fundraising activities	-	695
	$ 62,293	$ 68,195

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 7,100 and 11,000 volunteer hours for the years ended December 31, 2012 and 2011, 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, 2009 through 2012.

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, 2012 and 2011.

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 2, 2013, 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.

Common Stocks: Valued at the closing price reported on the active market on which the securities are traded.

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:

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds:				
Gold and precious metals	$ 33,404	$ -	$ -	$ 33,404
Long-term growth	47,188	-	-	47,188
Unconstrained bond	15,378	-	-	15,378
Total assets at fair value	$ 95,970	$ -	$ -	$ 95,970

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

	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

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

	2012	**2011**
Interest and dividend income	$ 92	$ 13
Net gain (loss) on investments	4,563	(21,792)
	$ 4,655	$ (21,779)

NOTE 4 – LINE OF CREDIT

During 2012, the Organization entered into a $100,000 line of credit agreement with a bank. The line bears interest at the prime interest rate as published by the Wall Street Journal plus 1% (currently 4.25%), is secured by cash and other accounts of the Organization, and matures February 2013. Amounts outstanding under this line of credit totaled $54,000 at December 31, 2012. Subsequent to December 31, 2012, the Organization renewed the line of credit agreement. See Note 8.

NOTE 5 – NET ASSETS

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

	2012	**2011**
Afterschool program	$ 39,865	$ 43,720
Scholarship	815	9,174
Capital campaign	-	33,873
	$ 40,680	$ 86,767

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:

	2012	2011
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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (726)	$ -	$ 110,000	$ 109,274
Investment return:				
Net appreciation (realized and unrealized)	4,865	-	-	4,865
Endowment net assets, end of year	$ 4,139	$ -	$ 110,000	$ 114,139

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

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. There were no deficiencies of this nature as of December 31, 2012. Deficiencies of this nature totaled $726 as of December 31, 2011.

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 2012, the Organization was awarded a grant totaling $15,100 from the Metropolitan Government of Nashville and Davidson County with a grant term of July 1, 2012 through June 30, 2013. In conjunction with this grant $14,131 is included as grant revenue in the accompanying 2012 statement of activities. Accounts receivable related to this grant totaled $3,776 at December 31, 2012.

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 is included as grant revenue in the accompanying 2011 statement of activities.

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, 2012, the Organization renewed its line of credit agreement at essentially the same terms and extended its maturity to May 2014.