YOUTH ENCOURAGEMENT SERVICES

Financial Statements

December 31, 2007

(With Independent Auditors' Report Thereon)

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

YOUTH ENCOURAGEMENT SERVICES

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Youth Encouragement Services:

We have audited the accompanying statement of financial position of Youth Encouragement Services as of December 31, 2007, 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.

Except as discussed in the following two paragraphs, 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.

Because of the inability to test the completeness of contributions for the public support of the Organization, we were unable to form an opinion regarding the amount of revenue in the accompanying statement of activity (stated at $907,316 and $537,800 for unrestricted and temporarily restricted net assets, respectively, in 2007).

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Encouragement Services as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan + Cain, PC

Brentwood, Tennessee
September 4, 2008

YOUTH ENCOURAGEMENT SERVICES

Statement of Financial Position

December 31, 2007

Assets

Current assets:	
Cash	$ 478,878
Investments	179,882
Prepaid expenses	6,605
Total current assets	665,365
Property and equipment, net:	
Land	106,236
Land improvements	4,095
Buildings	535,059
Furniture, fixtures and equipment	91,492
Vehicles	184,485
	921,367
Accumulated depreciation	(354,023)
Property and equipment, net	567,344
	$ 1,232,709

Liabilities and Net Assets

Current liabilities:	
Note payable	$ 28,720
Accounts payable and accrued expenses	31,004
Total current liabilities	59,724
Net assets:	
Unrestricted	648,377
Temporarily restricted	519,608
Permanently restricted	5,000
Total net assets	1,172,985
	$ 1,232,709

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Activities

Year ended December 31, 2007

Changes in unrestricted net assets:	
Public support and revenue:	
Public support:	
Individual support	$ 321,354
Congregational support	55,761
Corporate support	86,831
In-kind donations	178,825
Fundraising revenue	264,545
Total public support	907,316
Revenue:	
Rental income	750
Interest income	121
Investment income	9,814
Gain on sale of property and equipment	78,283
Miscellaneous income	18,304
Total revenue	107,272
Net assets released from restrictions	103,872
Total public support and revenue	1,118,460
Expenses:	
Program services	743,964
Supporting services	403,691
Total expenses	1,147,655
Decrease in unrestricted net assets	(29,195)
Changes in temporarily restricted net assets:	
Contributions	537,800
Net assets released from restrictions	(103,872)
Increase in temporarily restricted assets	433,928
Increase in net assets	404,733
Net assets at beginning of year	768,252
Net assets at end of year	$ 1,172,985

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Cash Flows

Year ended December 31, 2007

Cash flows from operating activities:	
Increase in net assets	$ 404,733
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	50,551
Gain on sale of property and equipment	(78,283)
Net loss on investments	6,829
Donated investments	(43,342)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	14,865
Total adjustments	(49,380)
Net cash provided by operating activities	355,353
Cash flows from investing activities:	
Proceeds from disposal of property and equipment	148,738
Purchases of property and equipment	(119,578)
Proceeds from sale of investments	852
Net cash provided by investing activities	30,012
Cash flows from financing activities:	
Payments of note payable	(89,247)
Increase in cash	296,118
Cash at beginning of year	182,760
Cash at end of year	$ 478,878

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES

Statement of Functional Expenses

Year ended December 31, 2007

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	$ 202,080	$ 28,223	$ 230,303	$ 54,560	$ 18,993	$ 73,553	$ 303,856
Housing and auto allowance	42,216	-	42,216	8,258	8,258	16,516	58,732
Payroll taxes	16,487	2,143	18,630	4,143	1,442	5,585	24,215
Advertising and promotion	4,265	-	4,265	-	8,814	8,814	13,079
In-kind donations for auction	-	-	-	-	78,004	78,004	78,004
Employee related expenses	-	-	-	1,250	-	1,250	1,250
Scholarships and awards	8,473	-	8,473	-	-	-	8,473
Insurance	45,649	-	45,649	7,902	3,586	11,488	57,137
Depreciation	50,551	-	50,551	-	-	-	50,551
Dues and subscriptions	234	-	234	-	-	-	234
Printing and publications	11,599	-	11,599	11,599	11,634	23,233	34,832
Postage	2,548	-	2,548	566	2,548	3,114	5,662
Professional services	-	-	-	13,511	-	13,511	13,511
Program materials	58,076	-	58,076	-	-	-	58,076
Repairs and maintenance	16,709	5,473	22,182	3,340	-	3,340	25,522
Supplies	14,844	-	14,844	7,829	1,882	9,711	24,555
Bus/van	26,083	-	26,083	-	-	-	26,083
Travel, meals and entertainment	-	-	-	23,190	9,939	33,129	33,129
Utilities	63,959	4,959	68,918	9,795	-	9,795	78,713
Interest	-	-	-	8,540	-	8,540	8,540
Miscellaneous	7,755	-	7,755	44,652	6,450	51,102	58,857
Honor roll trip	8,361	-	8,361	-	-	-	8,361
Christmas store	108,972	-	108,972	-	-	-	108,972
Camp	-	5,723	5,723	-	-	-	5,723
Blessing fund	6,540	-	6,540	-	-	-	6,540
Basketball program	2,042	-	2,042	-	-	-	2,042
Fundraising activities	-	-	-	-	53,006	53,006	53,006
Total	$ 697,443	$ 46,521	$ 743,964	$ 199,135	$ 204,556	$ 403,691	$ 1,147,655

See accompanying notes to the financial statements.

(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 churches.

(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.

(c) Property and equipment

Land and buildings amounting to $91,211 and $180,412, respectively, are recorded at estimated appraised value as of December 31, 1994. Property and equipment acquired subsequent to December 31, 1994, are recorded at acquisition cost and donated assets are capitalized at their estimated fair value at the date of the gift. Depreciation of property and equipment has been provided since June 30, 1990, over the estimated useful lives of the respective assets primarily on a straight-line basis.

(d) Income taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

(e) Contributed services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and fund-raising activities. The Organization estimates receipt of approximately 12,000 volunteer hours for the year ended December 31, 2007. 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.

(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.

(j) New accounting pronouncement

During 2008, the Staff of the Financial Accounting Standards Board (FASB) issued Proposed FASB Staff Position No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). This proposed FSP, if implemented, would be required to be followed for years ending after June 15, 2008 so it would apply to the Organization's 2008 calendar year financial statements. We understand that the Uniform Prudent Management Institutional Funds Act was enacted in Tennessee effective July 1, 2007. This FSP requires that the amount of permanently restricted net assets should not be reduced by losses on investments of the funds or by an organization's expenditures from the fund. 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 presently required. As of the date of this report, the FSP 117-1 was issued August 8, 2008. The provisions of the FSP are effective for fiscal years ending after December 15, 2008, and therefore the Organization expects to adopt FSP 117-1 during fiscal year 2008.

The Organization is currently assessing the impact of adopting this accounting standard.

(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, 2007 is as follows:

Money market funds	$	2
Mutual funds		144,910
Common stocks		34,970
	$	179,882

The following schedule summarizes the investment income (loss) in the statement of activities for the year ended December 31, 2007:

Interest and dividend income	$	16,643
Net loss on investments		(6,829)
	$	9,814

(5) Note payable and line of credit

The Organization has a $28,720 note payable to a bank in monthly installments of $1,333 at December 31, 2007. The note payable bears interest at the bank's 30-day LIBOR index rate plus 1.5% per annum (5.9575% at December 31, 2007) and is callable in October 2008. The note is secured by cash and other accounts.

The Organization has a $95,000 line of credit available with a bank at December 31, 2007. The line of credit matures in November 2008, and bears interest at the bank's index rate plus 1.5% (5.95753% at December 31, 2007), payable monthly. The line is secured by cash and other accounts of the Organization. There were no outstanding borrowings on this line at December 31, 2007.

(6) Net assets

Temporarily restricted net assets as of December 31, 2007 are available for the following purposes:

Acquisition of new computers	$	18,808
Renovation of centers		65,000
Capital campaign		425,800
Scholarship		10,000
	$	519,608

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, 2007 is as follows:

Ardell Whitehead Endowment Fund	$	5,000

(7) Program services

(a) Inner City Centers

Three centers are available on a daily basis to inner city children. The three locations are designed to provide a safe place for informal play, relaxation, and performance of school work. Tutoring programs are available every Thursday evening to help students with reading, math, English, cooking and computer skills. Parenting skills and adult literacy programs are also provided. A basketball league is provided for young people ages nine to eighteen.

(b) Camp

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

(8) Rental activities

The Organization entered into an agreement to lease the land at the Lindsley Avenue location to Otter Creek Day Care Center, Inc. for $1 each year through September 2026.

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, 2007 is as follows:

Christmas store	$	95,225
Back-to-school		5,596
Auction items		78,004
	$	178,825

(10) Supplemental disclosure of cash flow statement information

Interest paid	$	8,540