

CHILDREN ARE PEOPLE, INC.

Financial Statements

June 30, 2006 and 2005

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Independent Auditors' Report

To the Board of Directors
Children Are People, Inc.
Gallatin, Tennessee

We have audited the statements of financial position of Children Are People, Inc. (a nonprofit corporation) as of June 30, 2006 and 2005, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children Are People, Inc. as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Parker, Parker & Associates

November 9, 2006

CHILDREN ARE PEOPLE, INC.
Statements of Financial Position
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets		
Cash	\$ 43,658	\$ 33,837
Accounts Receivable	736	893
Prepaid Insurance	5,585	5,423
Total Current Assets	<u>49,979</u>	<u>40,153</u>
Property and Equipment		
Vehicles	18,090	18,090
Library Books	6,993	6,993
Less: Accumulated Depreciation	(8,347)	(3,730)
Total Property and Equipment	<u>16,736</u>	<u>21,353</u>
Total Assets	<u>\$ 66,715</u>	<u>\$ 61,506</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 63	\$ 1,521
Related Party Payable	160	2,362
Payroll Deductions Payable	736	830
Total Current Liabilities	<u>959</u>	<u>4,713</u>
Net Assets		
Unrestricted	65,756	50,608
Temporarily Restricted	-	6,185
Total Net Assets	<u>65,756</u>	<u>56,793</u>
Total Liabilities and Net Assets	<u>\$ 66,715</u>	<u>\$ 61,506</u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Statements of Activities
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Unrestricted Net Assets		
Public Support		
Contributions	\$ 54,945	\$ 45,328
Fundraising Events	23,910	-
Donated Assets and Services	74,419	62,052
Total Public Support	<u>153,274</u>	<u>107,380</u>
 Net Assets Released From Restrictions	 <u>16,535</u>	 <u>21,286</u>
Total Public Support and Reclassifications	<u>169,809</u>	<u>128,666</u>
 Expenses		
Program Services	125,641	101,851
Management and General	23,795	19,846
Fundraising	5,225	5,241
Total Expenses	<u>154,661</u>	<u>126,938</u>
 Increase in Unrestricted Net Assets	 <u>15,148</u>	 <u>1,728</u>
 Temporarily Restricted Net Assets		
Public Support		
Camp Donations	10,350	5,860
Net Assets Released From Restrictions	<u>(16,535)</u>	<u>(21,286)</u>
Decrease in Temporarily Restricted Net Assets	<u>(6,185)</u>	<u>(15,426)</u>
 Increase (Decrease) in Net Assets	 8,963	 (13,698)
 Net Assets - Beginning of Year	 <u>56,793</u>	 <u>70,491</u>
 Net Assets - End of Year	 <u><u>\$ 65,756</u></u>	 <u><u>\$ 56,793</u></u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Statements of Functional Expenses
For the Years Ended June 30, 2006 and 2005

	2006				2005			
	Supporting Services				Supporting Services			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Accounting/Audit	\$ -	\$ 14,000	\$ -	\$ 14,000	\$ -	\$ 13,600	\$ -	\$ 13,600
Advertising and Promotions	-	2,587	-	2,587	-	669	-	-
Bank Charges	-	30	-	30	-	123	-	123
Board of Directors	-	813	-	813	-	615	-	615
Depreciation	4,617	-	-	4,617	3,701	-	-	3,701
Dues and Subscriptions	539	-	-	539	150	-	-	150
Field Trips and Camps	12,200	-	-	12,200	9,563	-	-	9,563
Food and Kitchen Supplies	5,604	-	-	5,604	3,977	-	-	3,977
Fundraising	-	-	1,996	1,996	-	-	2,002	2,002
Housekeeping	2,505	-	-	2,505	136	-	-	136
Insurance	10,712	-	-	10,712	11,455	-	-	11,455
Internet	149	-	-	149	385	-	-	385
Licenses and Permits	-	792	-	792	-	181	-	181
Minor Equipment	2,477	-	-	2,477	640	-	-	640
Payroll Taxes	460	229	229	918	479	240	239	958
Postage	233	-	-	233	342	-	-	342
Printing	2,728	-	-	2,728	573	-	-	573
Rent	12,000	-	-	12,000	10,200	-	-	10,200
Repairs and Maintenance	1,846	-	-	1,846	2,076	-	-	2,076
Salaries	6,000	3,000	3,000	12,000	6,000	3,726	3,000	12,726
Student Gifts	8,045	-	-	8,045	7,037	-	-	7,037
Supplies and Books	2,971	1,650	-	4,621	2,998	340	-	3,338
Telephone	694	694	-	1,388	353	352	-	705
Transportation	7,040	-	-	7,040	5,275	-	-	5,275
T-Shirts	-	-	-	-	2,330	-	-	2,330
Tutors	40,108	-	-	40,108	30,098	-	-	30,098
Utilities	3,000	-	-	3,000	2,100	-	-	2,100
Van Gas and Maintenance	1,579	-	-	1,579	1,473	-	-	1,473
Volunteer Recognition	134	-	-	134	510	-	-	510
Total Expenses	<u>\$ 125,641</u>	<u>\$ 23,795</u>	<u>\$ 5,225</u>	<u>\$ 154,661</u>	<u>\$ 101,851</u>	<u>\$ 19,846</u>	<u>\$ 5,241</u>	<u>\$ 126,938</u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	\$ 8,963	\$ (13,698)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,617	3,701
(Increase) Decrease in Accounts Receivable	157	(893)
(Increase) in Prepaid Insurance	(162)	(1,049)
Increase (Decrease) in Accounts Payable	(1,458)	1,447
Increase (Decrease) in Related Party Payable	(2,202)	2,136
Increase (Decrease) in Payroll Liabilities	(94)	95
Total Adjustments	<u>858</u>	<u>5,437</u>
Net Cash Provided (Used) by Operating Activities	<u>9,821</u>	<u>(8,261)</u>
Cash Flows from Investing Activities		
Cash Payments for the Purchase of Property	-	(22,583)
Net Cash Used in Investing Activities	<u>-</u>	<u>(22,583)</u>
Net Increase (Decrease) in Cash	9,821	(30,844)
Cash - Beginning of Year	<u>33,837</u>	<u>64,681</u>
Cash - End of Year	<u>\$ 43,658</u>	<u>\$ 33,837</u>

See independent auditors' report and notes to financial statements.

CHILDREN ARE PEOPLE, INC.
Notes to Financial Statements
June 30, 2006 and 2005

Note 1. Summary of Significant Accounting Policies

A. Organization and Nature of Activities

Children Are People, Inc. ("CAP") is a nonprofit 501(c)(3) corporation registered in Tennessee. CAP's purpose is to assist at-risk children and their families with developing academic and life skills in order to produce responsible, self-sufficient adults who contribute to the community.

B. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Financial Statement Presentation

The net assets of CAP and changes therein are classified and reported in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of CAP and/or the passage of time.

D. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes cash on hand, demand deposits and investments with initial maturities of three months or less. CAP currently has no cash equivalents.

F. Fixed Assets

Fixed Assets with a useful life greater than one year and a purchase price of more than \$1,000 are carried at cost if purchased or approximate fair market value if donated. Contributed property and equipment is recorded at fair value at the date of donation. If a donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from 5-7 years.

G. Income Taxes

CAP is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

H. Functional Expenses

Expenses are charged directly to program, management and general, or fundraising based on specific identification and allocation by management.

I. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

CHILDREN ARE PEOPLE, INC.
Notes to Financial Statements - Continued
June 30, 2006 and 2005

Note 1. Summary of Significant Accounting Policies - Continued

J. Donated Materials, Services, Facilities and Assets

Donated materials, services, facilities and assets are used in the ongoing operations of CAP. Contributed services are reflected in the financial statements at the fair value of the services received in accordance with SFAS No. 116 *Accounting for Contributions Received and Contributions Made*. This standard requires that contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) requires specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

K. Advertising Costs

Advertising costs are expensed when incurred. Advertising cost for the printing of brochures of \$2,587 and \$669 was expensed during the years ended June 30, 2006 and 2005, respectively.

Note 2. Donated Materials, Services, Facilities and Assets

The value of donated materials, services, facilities and assets included in the financial statements and the corresponding expense or asset capitalization for the years ended June 30, 2006 and 2005 are as follows:

Revenues		
	2006	2005
Donated Goods	\$ 2,281	\$ 5,294
Donated Services	57,138	44,458
Donated Office Space	15,000	12,300
	<u>\$ 74,419</u>	<u>\$ 62,052</u>
Expenses		
	2006	2005
Accounting	\$ 10,000	\$ 9,600
Board of Directors	-	70
Food	1,098	286
Minor Equipment	-	350
Rent	12,000	10,200
Special Events	-	312
Student Gifts	-	1,275
Supplies	1,183	671
Transportation	7,030	4,760
T-Shirts	-	2,330
Tutors	40,108	30,098
Utilities	3,000	2,100
	<u>\$ 74,419</u>	<u>\$ 62,052</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist CAP with specific programs and fundraising. No amounts have been reflected in the financial statements for these donated services since volunteers' time does not meet the criteria for recognition under SFAS No. 116.

Note 3. Concentrations

For the year ended June 30, 2005, CAP received 15% of its funding from a single source.

CHILDREN ARE PEOPLE, INC.
Notes to Financial Statements - Continued
June 30, 2006 and 2005

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose as of June 30, 2006 and 2005:

Donor	Purpose	2006	2005
Dollar General Literacy Foundation	Reading Programs	\$ -	\$ 4,239
RR Donnelley Foundation	Research Library	-	1,946
Total		<u>\$ -</u>	<u>\$ 6,185</u>

Note 5. Related Party Transactions

During 2006 and 2005, various board members were reimbursed \$4,300 and \$3,790 for expenses incurred for CAP. At June 30, 2006 and 2005, \$160 and \$2,362 was payable to board members for reimbursements.