

CREATING AN ENVIRONMENT OF SUCCESS, INC.

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

OCTOBER 31, 2008

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, 2008, 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 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 audit 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 Creating an Environment of Success, Inc. as of October 31, 2008, and changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Hoskins & Company, P. C.
May 24, 2009

CREATING AN ENVIRONMENT OF SUCCESS, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2008

Assets

Current assets

| | |
|--|--------------------|
| Cash and cash equivalents | \$ 337,707 |
| Investments(Note- 3) | 27,029 |
| Contributions and Accounts receivable (net of allowance for doubtful accounts, of \$ 91,397 Note-4) | 72,945 |
| Inventories | 497,883 |
| Prepaid expenses | 8,966 |
| Total Current assets | <u>944,530</u> |

Noncurrent assets

| | |
|---|--------------------|
| Security Deposit | 19,920 |
| Property and equipment(net of Accumulated depreciation, Note-6) | 738,966 |
| Total Noncurrent assets | <u>758,886</u> |

| | |
|--------------|----------------------------|
| Total Assets | <u><u>\$ 1,703,416</u></u> |
|--------------|----------------------------|

Liabilities and Net Assets

Current liabilities

| | |
|---|----------------|
| Accounts payable | \$ 189,640 |
| Line of Credit(Note-8) | 191,297 |
| Accrued payables(Note-7) | 61,159 |
| Rent deposit | 8,084 |
| Current portion of deferred compensation | 60,000 |
| Current portion of long term debt | 30,703 |
| Current portion of capital lease obligation | 5,192 |
| Total Current liabilities | <u>546,075</u> |

Noncurrent liabilities

| | |
|---|----------------|
| Long term deferred compensation(Note-7) | 39,000 |
| Long term notes payable less current installments(Note-8) | 872,820 |
| Lease obligation(Note-9) | 18,187 |
| Total noncurrent liabilities | <u>930,007</u> |

| | |
|-------------------------|----------------|
| Unrestricted Net Assets | <u>227,334</u> |
|-------------------------|----------------|

| | |
|----------------------------------|----------------------------|
| Total Liabilities and Net Assets | <u><u>\$ 1,703,416</u></u> |
|----------------------------------|----------------------------|

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

CREATING AN ENVIRONMENT OF SUCCESS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Public Support and Revenues: | | | | |
| Public support - contributions | \$ 595,364 | \$ - | - | \$ 595,364 |
| Revenues: | | | | |
| Special events income | 46,320 | - | - | 46,320 |
| Awards banquet | 86,332 | - | - | 86,332 |
| Training center income | 1,731,062 | - | - | 1,731,062 |
| Membership dues | 40 | - | - | 40 |
| Interest income | 6,682 | - | - | 6,682 |
| In-kind revenue | 38,731 | - | - | 38,731 |
| Miscellaneous income | 51,001 | - | - | 51,001 |
| Total public support and revenues | <u>2,555,532</u> | <u>-</u> | <u>-</u> | <u>2,555,532</u> |
| Net assets released from restrictions | <u>2,000</u> | <u>-</u> | <u>-</u> | <u>2,000</u> |
| Total Support and Revenues | <u>2,557,532</u> | <u>-</u> | <u>-</u> | <u>2,557,532</u> |
| Expenses and Losses: | | | | |
| Program Services: | | | | |
| Training centers | 1,963,324 | - | - | 1,963,324 |
| Membership | 15,607 | - | - | 15,607 |
| Total program services | <u>1,978,931</u> | <u>-</u> | <u>-</u> | <u>1,978,931</u> |
| Supporting Services; | | | | |
| Management and general | 330,260 | - | - | 330,260 |
| Fundraising | 65,233 | - | - | 65,233 |
| Total Supporting services | <u>395,493</u> | <u>-</u> | <u>-</u> | <u>395,493</u> |
| Total Program and supporting expenses | <u>2,374,424</u> | <u>-</u> | <u>-</u> | <u>2,374,424</u> |
| Net Assets released from restriction | <u>-</u> | <u>(2,000)</u> | <u>-</u> | <u>-</u> |
| Increase / (decrease) in net assets | <u>183,108</u> | <u>(2,000)</u> | <u>-</u> | <u>181,108</u> |
| Net assets - beginning of year | <u>44,226</u> | <u>2,000</u> | <u>-</u> | <u>46,226</u> |
| Net assets - end of year | <u>\$ 227,334</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 227,334</u> |

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

CREATING AN ENVIRONMENT OF SUCCESS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2008

Cash Flows From Operating Activities:

| | |
|--|----------------|
| Increase in net assets | \$ 181,108 |
| Adjustments to reconcile change in net assets to net cash provided(used) by operating activities: | |
| Depreciation and amortization | 55,963 |
| Bad debts | 24,267 |
| Unrealized loss on investment | 5,055 |
| Change/Increase in donated inventories | (145,380) |
| Increase in accounts receivable | (48,501) |
| Increase in accounts and accrued payables | 115,340 |
| Increase in deferred compensation | 99,000 |
| Increase in rent deposit | 2,170 |
| Net cash provided by operating activities | <u>289,022</u> |

Cash flows from investing activities:

| | |
|---------------------------------------|------------------|
| Purchase of fixed assets | (114,278) |
| Purchase of investments | (2,382) |
| Net cash used by investing activities | <u>(116,660)</u> |

Cash flows from financing activities:

| | |
|---|--------------|
| Line of credit | 54,320 |
| Payment of long-term debt | (36,034) |
| Payments on capitalized lease obligation | (13,819) |
| Net cash provided by financing activities | <u>4,467</u> |

| | |
|--|-------------------|
| Net Increase in Cash and Cash Equivalents | 176,829 |
| Cash and Cash Equivalents at Beginning of Year | 160,878 |
| Cash and Cash Equivalents at End of Year | <u>\$ 337,707</u> |

| | |
|---------------|----------------|
| Interest Paid | <u>126,284</u> |
|---------------|----------------|

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

CREATING AN ENVIRONMENT OF SUCCESS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED OCTOBER 31, 2008

| | Program Services | | | Supporting Services | | Total Expenses |
|------------------------------------|---------------------|------------------|---------------------|----------------------|------------------|---------------------|
| | Training Center | Membership | Total | Management & General | Fundraising | |
| Salaries | \$ 377,660 | \$ - | \$ 377,660 | \$ 159,552 | \$ - | \$ 537,212 |
| Security | 3,196 | - | 3,196 | - | - | 3,196 |
| Automobile | 15,096 | - | 15,096 | 5,240 | - | 20,336 |
| Bank Interest/Finance Charges | 73,471 | - | 73,471 | 15,164 | - | 88,635 |
| Contract Labor | 250,098 | 14,908 | 265,006 | 18,826 | - | 283,832 |
| Contributions | - | - | - | 3,595 | - | 3,595 |
| Dues and Subscriptions | 40 | - | 40 | - | - | 40 |
| Insurance | 36,262 | - | 36,262 | 4,121 | - | 40,383 |
| Interest and Penalties | 8,669 | - | 8,669 | 28,979 | - | 37,648 |
| Licenses and Permits | 325 | - | 325 | - | - | 325 |
| Meetings | 6,742 | - | 6,742 | 394 | - | 7,136 |
| Community Relations Meetings | - | 699 | 699 | 1,500 | - | 2,199 |
| Fundraising Meals | - | - | - | - | 8,277 | 8,277 |
| Fundraising Support | - | - | - | - | 25,440 | 25,440 |
| Fundraising Supplies | - | - | - | - | 24,456 | 24,456 |
| Advertising and Marketing | 6,403 | - | 6,403 | 285 | - | 6,688 |
| Miscellaneous | 16,451 | - | 16,451 | - | - | 16,451 |
| Office Supplies | 32,932 | - | 32,932 | 185 | - | 33,117 |
| Postage and Delivery | 5,415 | - | 5,415 | 413 | 79 | 5,907 |
| Printing and Reproduction | 7,698 | - | 7,698 | 319 | 793 | 8,810 |
| Professional Fees | 3,500 | - | 3,500 | 13,290 | - | 16,790 |
| Contract Services | 26,723 | - | 26,723 | 2,063 | 6,188 | 34,974 |
| Rent | 129,137 | - | 129,137 | 5,564 | - | 134,701 |
| Repairs and Maintenance | 25,183 | - | 25,183 | 1,652 | - | 26,835 |
| Waste Disposal Services | 19,674 | - | 19,674 | - | - | 19,674 |
| Telephone | 21,264 | - | 21,264 | 9,101 | - | 30,365 |
| Travel and Entertainment | 121,560 | - | 121,560 | 14,341 | - | 135,901 |
| Training Materials | 390 | - | 390 | 531 | - | 921 |
| Utilities | 65,276 | - | 65,276 | - | - | 65,276 |
| Sales Tax Expense | 70,839 | - | 70,839 | - | - | 70,839 |
| Property Taxes | 9,458 | - | 9,458 | - | - | 9,458 |
| Personalty Taxes | - | - | - | 476 | - | 476 |
| Bad Debt Expense | - | - | - | 24,267 | - | 24,267 |
| Payroll Expense | 45,705 | - | 45,705 | 20,402 | - | 66,107 |
| Summer Business Camp | 414,891 | - | 414,891 | - | - | 414,891 |
| All Things Possible Bargain Center | 13,114 | - | 13,114 | - | - | 13,114 |
| Annual Enrichment Trip | 1,000 | - | 1,000 | - | - | 1,000 |
| Ski trip | 3,658 | - | 3,658 | - | - | 3,658 |
| YAB Junior Executive Camp | 947 | - | 947 | - | - | 947 |
| YAB Real Estate Company | 1,002 | - | 1,002 | - | - | 1,002 |
| YAB - Other | 70,382 | - | 70,382 | - | - | 70,382 |
| YAB Investment Club | 2,294 | - | 2,294 | - | - | 2,294 |
| YAB Ownership Management | 8,605 | - | 8,605 | - | - | 8,605 |
| YAB Specialty Company | 11,256 | - | 11,256 | - | - | 11,256 |
| YAB Technology Center | 545 | - | 545 | - | - | 545 |
| YAB Training Center | 500 | - | 500 | - | - | 500 |
| Total Expenses before depreciation | 1,907,361 | 15,607 | 1,922,968 | 330,260 | 65,233 | 2,318,461 |
| Depreciation | 55,963 | - | 55,963 | - | - | 55,963 |
| | <u>\$ 1,963,324</u> | <u>\$ 15,607</u> | <u>\$ 1,978,931</u> | <u>\$ 330,260</u> | <u>\$ 65,233</u> | <u>\$ 2,374,424</u> |

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

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – *Creating an Environment of Success, Inc.* (the “Organization”) was established as a not-for-profit entity, for the purpose of promoting values of entrepreneurship and self-empowerment in underserved communities. The Organization is a not-for-profit corporation whose revenue is mainly derived 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.

The Organization currently operates 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.

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

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.

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.

Receivables - Contributions and pledges are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give are recorded when the promises are made. Unconditional promises to give due in the next year are reflected as current pledges/contributions receivable and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term pledges receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are received to discount the amounts. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Receivables also include unpaid rents by tenants owed from leasing office spaces used as shopping center.

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.

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

Fair Values of Financial Instruments - The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments. The fair values of the notes payable and the capitalized lease obligation approximate the carrying amounts and are estimated based on current rates offered to the Organization.

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.

NOTE 3 INVESTMENTS

Investments at October 31, 2008, consist of the following:

| | |
|---|-----------------|
| Investment in a time-share condominium In Orlando, Florida | \$10,900 |
| Investment in Meriwether Capital Corporation | 7,750 |
| Investment in Ed Jones | 485 |
| Investment in 43 shares of Microsoft Corporation | 968 |
| Investment in 100 shares of McDonalds Corporation | 5,737 |
| Investment in 75 shares of Starbucks Corporation | 956 |
| Investment in 13 shares of Pfizer, Inc. | <u>233</u> |
| Total | <u>\$27,029</u> |

NOTE 4 CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Receivables at October 31, 2008, consist of the following:

| | |
|--------------------------------------|------------------|
| Contributions receivable | \$ 127,580 |
| Accounts Receivable | 36,762 |
| Less: Allowance for doubtful pledges | <u>(91,397)</u> |
| Net Receivables | <u>\$ 72,945</u> |

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

NOTE 5 INVENTORY

Inventories consisting of donated items used for resale purposes in the retail store were valued based on subsequent sales of inventory. Inventory is stated at \$497,883 as of October 31, 2008. 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, 2008.

NOTE 6 PROPERTY AND EQUIPMENT

Depreciation expense as of October 31, 2008 was \$ 55,963. A summary of Property and equipment as of October 31, 2008 were as follows:

| | |
|--------------------------------------|--------------------------------|
| Land - Business Training Center | \$ 65,000 |
| Business Training Center - Equipment | 809,537 |
| Equipment - Other | 64,561 |
| Furniture and Fixtures | 33,592 |
| Computer | 38,092 |
| Vehicle | 61,250 |
| Leashold Improvements | 96,470 |
| Total | <u>1,168,502</u> |
| Less: Accumulated Depreciation | 429,536 |
| Property and Equipment, Net | <u><u>\$ 738,966</u></u> |

NOTE 7 ACCRUED PAYABLES

The Board of Directors of the organization approved deferred compensation as a back pay of \$129,000 to the Executive Director in February 2008. The board established \$5,000 in monthly payments to this effect. As of October 31, 2008 the outstanding balance was \$99,000. Accrued Payables at October 31, 2008, consisted of the following:

| | |
|---------------------------|-------------------------------|
| Accrued Payroll Payable | \$ 39,641 |
| Accrued Interest Payables | 15,165 |
| Sales Tax Payable | 6,353 |
| | <u><u>\$ 61,159</u></u> |

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

NOTE 8 LINE OF CREDIT AND NOTES PAYABLE

The organization established two lines of credit with Regions Bank in the amount of \$200,000 on June 27, 2008, with an interest rate of 5.0%, and \$65,825 on July 2, 2008, with an interest rate of 8.10%. As of October 31, 2008 the outstanding balances on these two lines of credit was \$128,153 and \$63,144 respectively.

Loans and notes payable as of October 31, 2008, include the following:

| | |
|---|----------|
| Note payable to Toyota Motor Credit, payable in monthly installments of \$369, including interest at 10.95% through maturity in May 2010. Note is secured by a vehicle. | \$13,548 |
|---|----------|

| | |
|---|----------------|
| Note payable to Sun Trust Bank payable in monthly installments of \$7,215. The interest rate is 7.125% through maturity in August 29, 2017. Note is secured by the real estate. | <u>889,975</u> |
|---|----------------|

| | |
|-------|---------|
| Total | 903,523 |
|-------|---------|

| | |
|----------------------------|-----------------|
| Less: current installments | <u>(30,703)</u> |
|----------------------------|-----------------|

\$872,820

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

| | |
|------------------|------------------|
| October 31, 2009 | \$ 30,703 |
| October 31, 2010 | 30,703 |
| October 31, 2011 | 30,703 |
| October 31, 2012 | 30,703 |
| October 31, 2013 | 30,703 |
| Thereafter | <u>750,008</u> |
| | <u>\$903,523</u> |

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

NOTE 9 CAPITAL AND OPERATING LEASE

In fiscal year 2008 the Organization entered into a 60 -month capital lease agreement for the lease of copier equipment- Canon IPC from IKON Financial Services. The lease is scheduled to end on April, 2013. The outstanding balance on the lease at October 31, 2008 was \$23,379. The Organization also leases office space under lease arrangements classified as operating leases. Total rent expense under these leases totaled \$134,701 for the year ended October 31, 2008.

The future minimum lease payments under the non-cancellable operating and the capital leases are as follows:

| | <u>Capital Lease</u> | <u>Operating Lease</u> |
|------------------|---------------------------------|-----------------------------------|
| October 31, 2009 | \$ 5,192 | \$107,587 |
| October 31, 2010 | 5,192 | 107,587 |
| October 31, 2011 | 5,192 | - |
| October 31, 2012 | 5,192 | - |
| October 31, 2013 | <u>2,611</u> | <u>-</u> |
| | <u>\$23,379</u> | <u>\$ 215,174</u> |

NOTE 10 REAL ESTATE TRAINING CENTER INCOMES

The Organization, through its real estate training center, rents certain office space to various tenants in the shopping center under leases classified as operating leases.

The following is a schedule of future minimum lease payments by tenants:

| | |
|------------------|------------------|
| October 31, 2009 | \$ 99,172 |
| October 31, 2010 | 81,674 |
| October 31, 2011 | 43,700 |
| October 31, 2012 | <u>17,910</u> |
| | <u>\$242,456</u> |

CREATING AN ENVIRONMENT OF SUCCESS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2008

NOTE 11 CONTRIBUTED SERVICES

The Organization recognized contribution revenue for contributed services related to the Summer Business Camp. This in-kind revenue from services was based on fair market value. In-kind revenue as of October 31, 2008 was \$38,731.

NOTE 12 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.