

YOUTH ENCOURAGEMENT SERVICES

FINANCIAL STATEMENTS

December 31, 2010 and 2009

YOUTH ENCOURAGEMENT SERVICES

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Youth Encouragement Services
Nashville, Tennessee

We have audited the accompanying statements of financial position of Youth Encouragement Services (a nonprofit organization) as of December 31, 2010 and 2009, 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.

As more fully described in Note 2 to the financial statements, certain land and buildings are stated at estimated appraised 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. 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 in the first paragraph present fairly, in all material respects, the financial position of Youth Encouragement Services as of December 31, 2010 and 2009, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8, the Organization restated net assets at January 1, 2009 to properly reflect permanently restricted net assets.

Frasier, Dean & Howard, PLLC

April 12, 2011

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	2010	2009 (as restated)
Assets		
Current assets:		
Cash	\$ 188,750	\$ 252,995
Investments	205,552	171,501
Grant receivable	1,861	-
Prepaid expenses and other	-	2,164
Total current assets	<u>396,163</u>	<u>426,660</u>
Property and equipment, net:		
Land	106,236	106,236
Land improvements	11,466	4,095
Buildings	608,914	608,914
Furniture, fixtures and equipment	96,162	96,162
Vehicles	210,504	224,004
	1,033,282	1,039,411
Less accumulated depreciation	<u>(513,977)</u>	<u>(471,080)</u>
Property and equipment, net	<u>519,305</u>	<u>568,331</u>
Total assets	<u><u>\$ 915,468</u></u>	<u><u>\$ 994,991</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,095	\$ 23,927
Line of credit	21,000	-
Note payable, current portion	-	8,666
Total liabilities	<u>39,095</u>	<u>32,593</u>
Net assets:		
Unrestricted	653,359	707,083
Temporarily restricted	113,014	145,315
Permanently restricted	110,000	110,000
Total net assets	<u>876,373</u>	<u>962,398</u>
Total liabilities and net assets	<u><u>\$ 915,468</u></u>	<u><u>\$ 994,991</u></u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Public support:				
Individual support	\$ 176,187	\$ 1,375	\$ -	\$ 177,562
Fundraising revenue	167,806	-	-	167,806
Corporate support	57,245	78,000	-	135,245
Congregational support	60,087	-	-	60,087
In-kind donations	48,792	-	-	48,792
Government grant	6,134	-	-	6,134
Registration fees	3,979	-	-	3,979
Total public support	<u>520,230</u>	<u>79,375</u>	<u>-</u>	<u>599,605</u>
Revenues:				
Investment income	33,553	-	-	33,553
Miscellaneous income	4,429	-	-	4,429
Interest income	148	-	-	148
Total revenues	<u>38,130</u>	<u>-</u>	<u>-</u>	<u>38,130</u>
Net assets released from restrictions	<u>111,676</u>	<u>(111,676)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>670,036</u>	<u>(32,301)</u>	<u>-</u>	<u>637,735</u>
Expenses:				
Program services	537,145	-	-	537,145
Management and general	121,838	-	-	121,838
Fundraising	64,777	-	-	64,777
Total expenses	<u>723,760</u>	<u>-</u>	<u>-</u>	<u>723,760</u>
Change in net assets	(53,724)	(32,301)	-	(86,025)
Net assets at beginning of year	<u>707,083</u>	<u>145,315</u>	<u>110,000</u>	<u>962,398</u>
Net assets at end of year	<u>\$ 653,359</u>	<u>\$ 113,014</u>	<u>\$ 110,000</u>	<u>\$ 876,373</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES (as restated)
For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Public support:				
Individual support	\$ 209,925	\$ 26,133	\$ -	\$ 236,058
Fundraising revenue	171,340	-	-	171,340
Corporate support	62,723	40,000	-	102,723
In-kind donations	102,055	-	-	102,055
Congregational support	65,328	-	-	65,328
Government grant	22,325	-	-	22,325
Total public support	<u>633,696</u>	<u>66,133</u>	<u>-</u>	<u>699,829</u>
Revenues:				
Investment income	49,931	-	-	49,931
Miscellaneous income	49,066	-	-	49,066
Interest income	46	-	-	46
Total revenues	<u>99,043</u>	<u>-</u>	<u>-</u>	<u>99,043</u>
Net assets released from restrictions	<u>83,425</u>	<u>(83,425)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>816,164</u>	<u>(17,292)</u>	<u>-</u>	<u>798,872</u>
Expenses:				
Program services	551,536	-	-	551,536
Management and general	175,370	-	-	175,370
Fundraising	64,962	-	-	64,962
Total expenses	<u>791,868</u>	<u>-</u>	<u>-</u>	<u>791,868</u>
Change in net assets	<u>24,296</u>	<u>(17,292)</u>	<u>-</u>	<u>7,004</u>
Net assets at beginning of year, as previously reported	787,787	162,607	5,000	955,394
Restatement	<u>(105,000)</u>	<u>-</u>	<u>105,000</u>	<u>-</u>
Net assets at beginning of year, as restated	<u>682,787</u>	<u>162,607</u>	<u>110,000</u>	<u>955,394</u>
Net assets at end of year	<u>\$ 707,083</u>	<u>\$ 145,315</u>	<u>\$ 110,000</u>	<u>\$ 962,398</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2010

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	\$ 153,690	\$ 4,477	\$ 158,167	\$ 51,005	\$ 13,199	\$ 64,204	\$ 222,371
Housing allowance	71,632	-	71,632	7,838	7,838	15,676	87,308
Depreciation	56,398	-	56,398	-	-	-	56,398
Professional services (including \$1,200 in-kind)	21,801	-	21,801	13,354	18,000	31,354	53,155
Christmas store (including \$46,725 in-kind)	46,725	-	46,725	5,930	-	5,930	52,655
Insurance	40,518	-	40,518	9,973	1,563	11,536	52,054
Utilities	32,328	-	32,328	9,378	-	9,378	41,706
Fundraising activities	-	-	-	-	20,472	20,472	20,472
Bus and van	19,639	-	19,639	341	-	341	19,980
Scholarships and awards	17,075	-	17,075	-	-	-	17,075
Travel, meals and entertainment (including \$867 in-kind)	16,911	-	16,911	547	34	581	17,492
Payroll taxes	11,656	-	11,656	3,620	1,010	4,630	16,286
Miscellaneous	7,594	-	7,594	6,399	5	6,404	13,998
Supplies	5,883	-	5,883	5,852	-	5,852	11,735
Basketball program	7,732	-	7,732	-	-	-	7,732
Honor roll trip	7,219	-	7,219	-	-	-	7,219
Repairs and maintenance	6,739	-	6,739	435	-	435	7,174
Printing and publications	-	-	-	4,554	1,597	6,151	6,151
Camp	-	5,661	5,661	-	-	-	5,661
Program materials	3,414	-	3,414	-	-	-	3,414
Postage	53	-	53	1,485	1,059	2,544	2,597
Dues and subscriptions	-	-	-	740	-	740	740
Interest	-	-	-	387	-	387	387
Total	\$ 527,007	\$ 10,138	\$ 537,145	\$ 121,838	\$ 64,777	\$ 186,615	\$ 723,760

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	\$ 111,597	\$ 3,178	\$ 114,775	\$ 69,049	\$ 14,760	\$ 83,809	\$ 198,584
Housing and auto allowance	73,917	-	73,917	34,125	-	34,125	108,042
Professional services	48,064	-	48,064	21,892	8,100	29,992	78,056
Christmas store (including \$57,325 in-kind)	57,325	-	57,325	3,044	1,200	4,244	61,569
Depreciation	60,285	-	60,285	-	-	-	60,285
Insurance	37,401	-	37,401	17,082	-	17,082	54,483
Travel, meals and entertainment (including \$35,468 in-kind)	50,755	-	50,755	39	-	39	50,794
Utilities	32,420	-	32,420	9,141	-	9,141	41,561
Fundraising activities	-	-	-	-	27,462	27,462	27,462
Bus and van	15,586	83	15,669	482	-	482	16,151
Payroll taxes	8,779	-	8,779	5,583	1,193	6,776	15,555
Miscellaneous	5,914	-	5,914	5,073	875	5,948	11,862
Scholarships and awards	11,103	-	11,103	-	-	-	11,103
Supplies	5,385	-	5,385	5,695	-	5,695	11,080
Program materials (including \$9,262 in-kind)	9,596	-	9,596	-	-	-	9,596
Postage	44	664	708	1,674	7,212	8,886	9,594
Repairs and maintenance	4,959	-	4,959	1,702	-	1,702	6,661
Honor roll trip	6,549	-	6,549	-	-	-	6,549
Printing and publications	-	2,083	2,083	-	4,160	4,160	6,243
Camp	-	4,294	4,294	-	-	-	4,294
Blessing fund	1,500	-	1,500	-	-	-	1,500
Interest	-	-	-	559	-	559	559
Dues and subscriptions	-	-	-	230	-	230	230
Basketball program	-	-	-	-	-	-	-
Total	\$ 541,234	\$ 10,302	\$ 551,536	\$ 175,370	\$ 64,962	\$ 240,332	\$ 791,868

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (86,025)	\$ 7,004
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation	56,398	60,285
Net gain on investments	(33,553)	(49,931)
Donated investments	(1,985)	(7,606)
Changes in operating assets and liabilities:		
Grant receivable	(1,861)	15,175
Prepaid expenses and other	2,164	(1,334)
Accounts payable and accrued expenses	(5,832)	(11,984)
Net cash (used in) provided by operating activities	<u>(70,694)</u>	<u>11,609</u>
Cash flows from investing activities:		
Purchases of property and equipment	(7,372)	(17,927)
Purchase of investments	(8,031)	(30,969)
Proceeds from sale of investments	9,518	38,664
Net cash used in investing activities	<u>(5,885)</u>	<u>(10,232)</u>
Cash flows from financing activities:		
Proceeds from borrowings on line of credit	21,000	-
Payments of note payable	(8,666)	(8,004)
Net cash provided by (used in) financing activities	<u>12,334</u>	<u>(8,004)</u>
Decrease in cash	(64,245)	(6,627)
Cash at beginning of year	<u>252,995</u>	<u>259,622</u>
Cash at end of year	<u>\$ 188,750</u>	<u>\$ 252,995</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 387</u>	<u>\$ 559</u>

See accompanying notes to the financial statements.

**YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

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

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of accounting principles generally accepted in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization's statements of financial position, activities, cash flows, or functional expenses.

Basis of Presentation

In accordance with the 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.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

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 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 exceeds amounts that are federally insured. In management's opinion, risk related to such possible deposits is reduced based on the credit quality of its depository financial institutions.

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.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

	<u>2010</u>	<u>2009</u>
Christmas store	\$ 46,725	\$ 57,325
Professional services	1,200	-
Food	867	35,468
Program items	<u>-</u>	<u>9,262</u>
	<u>\$ 48,792</u>	<u>\$ 102,055</u>

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 12,000 and 9,000 volunteer hours for the years ended December 31, 2010 and 2009, 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.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

On January 1, 2009 the Organization adopted FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This interpretation 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, 2007 through 2010. Adoption of this pronouncement had no impact on the Organization's financial position or activities.

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.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred. There was no advertising expense for the years ended December 31, 2010 and 2009.

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.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Subsequent Events

The Organization evaluated subsequent events through April 12, 2011, when these financial statements were available to be issued. 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).

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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.
- 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.

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:

	2010			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Gold and precious metals	\$ 96,407	\$ -	\$ -	\$ 96,407
Long-term growth	57,290	-	-	57,290
Unconstrained bond	31,895	-	-	31,895
Developing markets	19,960	-	-	19,960
Total assets at fair value	<u>\$ 205,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,552</u>

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

	2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Gold and precious metals	\$ 72,258	\$ -	\$ -	\$ 72,258
Long-term growth	58,135	-	-	58,135
Unconstrained bond	22,534	-	-	22,534
Developing markets	<u>18,574</u>	<u>-</u>	<u>-</u>	<u>18,574</u>
Total assets at fair value	<u>\$ 171,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,501</u>

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

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 11,773	\$ 3,229
Net gain on investments	<u>21,780</u>	<u>46,702</u>
	<u>\$ 33,553</u>	<u>\$ 49,931</u>

NOTE 4 – NOTE PAYABLE AND LINE OF CREDIT

During 2010, the Organization extended a \$100,000 line of credit agreement with a bank. The line bears interest at prime plus 1%, is secured by cash and other accounts of the Organization, and matures August 2011. Amounts outstanding under this line of credit totaled \$21,000 at December 31, 2010. There were no amounts outstanding at December 31, 2009.

At December 31, 2009, the Organization had an outstanding note payable to a bank totaling \$8,666. This note was due in monthly installments of \$713 bearing a fixed interest rate of 4.35% per annum. This note was paid in full during 2010.

NOTE 5 – NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Afterschool program	\$ 38,857	\$ 30,000
Capital campaign	54,333	78,990
Scholarship	<u>19,824</u>	<u>36,325</u>
	<u>\$ 113,014</u>	<u>\$ 145,315</u>

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

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:

	<u>2010</u>	<u>2009</u>
General Endowment Fund	\$ 105,000	\$ 105,000
Ardell Whitehead Endowment Fund	<u>5,000</u>	<u>5,000</u>
	<u>\$ 110,000</u>	<u>\$ 110,000</u>

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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 18,570	\$ -	\$ 110,000	\$ 128,570
Investment return:				
Net appreciation (realized and unrealized)	<u>28,334</u>	<u>-</u>	<u>-</u>	<u>28,334</u>
Endowment net assets, end of year	<u>\$ 46,904</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 156,904</u>

Changes in Endowment Net Assets for the fiscal year ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (20,226)	\$ -	\$ 110,000	\$ 89,774
Contributions, net	5,000	-	-	5,000
Investment return:				
Net appreciation (realized and unrealized)	<u>33,796</u>	<u>-</u>	<u>-</u>	<u>33,796</u>
Endowment net assets, end of year	<u>\$ 18,570</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 128,570</u>

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

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, 2010 and 2009.

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.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

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 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 \$1,861 is included as grant receivable and \$6,134 is included as grant revenue in the accompanying 2010 statement of financial position and statement of activities, respectively.

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 that such changes could materially affect the amounts reported in the statements of financial position.

NOTE 8 – RESTATEMENT

Permanently restricted net asset balances were restated as of January 1, 2009 to include the contributions received by the Organization in previous years originally intended to be held in perpetuity. The restatement has no effect on the change in net assets or the total net assets at December 31, 2010 or 2009. A summary of restated net asset balances is as follows:

	<u>As Previously Recorded</u>	<u>Restatement</u>	<u>As Restated</u>
Net assets:			
Unrestricted	\$ 787,787	\$ (105,000)	\$ 682,787
Temporarily restricted	162,607	-	162,607
Permanently restricted	<u>5,000</u>	<u>105,000</u>	<u>110,000</u>
Total net assets	<u>\$ 955,394</u>	<u>\$ -</u>	<u>\$ 955,394</u>