

*Financial Statements*

EMERALD YOUTH FOUNDATION

Years Ended December 31, 2010 and 2009

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors  
Emerald Youth Foundation  
Knoxville, Tennessee

We have audited the accompanying statements of financial position of Emerald Youth Foundation 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.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Emerald Youth Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Mitchell Emert & Hill*

March 30, 2011

EMERALD YOUTH FOUNDATION

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 146,884	\$ 120,602
Current portion of pledges receivable	786,914	746,520
Grants receivable	<u>34,030</u>	<u>18,508</u>
<b>TOTAL CURRENT ASSETS</b>	967,828	885,630
<b>LONG-TERM PLEDGES RECEIVABLE,</b> net of current portion and present value discount	839,247	1,382,754
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	889,372	889,372
Furniture and equipment	214,319	199,149
Vehicles	<u>226,871</u>	<u>212,471</u>
	1,330,562	1,300,992
Accumulated depreciation	<u>(979,146)</u>	<u>(902,683)</u>
	351,416	398,309
Land held for future use	<u>15,456</u>	<u>15,456</u>
	<u>366,872</u>	<u>413,765</u>
	<u>\$ 2,173,947</u>	<u>\$ 2,682,149</u>

See the accompanying notes to the financial statements.

	<u>2010</u>	<u>2009</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 100	\$ 2,756
Current portion of long-term debt	<u>19,682</u>	<u>22,978</u>
<b>TOTAL CURRENT LIABILITIES</b>	19,782	25,734
<b>LONG-TERM DEBT,</b> net of current portion	8,216	26,410
<b>NET ASSETS</b>		
Unrestricted	240,161	198,034
Temporarily restricted	<u>1,905,788</u>	<u>2,431,971</u>
	<u>2,145,948</u>	<u>2,630,005</u>
	<u>\$ 2,173,947</u>	<u>\$ 2,682,149</u>

EMERALD YOUTH FOUNDATION

**STATEMENTS OF ACTIVITIES**

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b><u>UNRESTRICTED NET ASSETS</u></b>		
<b>SUPPORT AND REVENUE</b>		
Contributions and grants	\$ 372,510	\$ 358,619
AmeriCorps program	199,218	170,260
Special events, net of direct expenses	81,549	80,926
Program service fees	22,697	19,248
In-kind contributions	103,637	69,757
Interest	796	171
Miscellaneous	88	22
	<u>780,495</u>	<u>699,004</u>
Net assets released from restrictions	<u>1,310,740</u>	<u>1,331,093</u>
	2,091,235	2,030,097
<b>EXPENSES</b>		
Program services	1,455,889	1,440,330
Management and general	207,767	200,495
Fundraising	385,453	271,531
	<u>2,049,108</u>	<u>1,912,355</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	42,128	117,741

EMERALD YOUTH FOUNDATION

**STATEMENTS OF ACTIVITIES**

(continued)

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b><u>TEMPORARILY RESTRICTED NET ASSETS</u></b>		
<b>SUPPORT AND REVENUE</b>		
Contributions and grants	784,557	696,143
Net assets released from donor restrictions	<u>(1,310,740)</u>	<u>(1,331,093)</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(526,183)</u>	<u>(634,950)</u>
<b>CHANGE IN NET ASSETS</b>	(484,057)	(517,209)
<b>NET ASSETS AT THE BEGINNING OF THE YEAR</b>	<u>2,630,005</u>	<u>3,147,213</u>
<b>NET ASSETS AT THE END OF THE YEAR</b>	<u>\$ 2,145,948</u>	<u>\$ 2,630,005</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 708,492	\$ 127,817	\$ 149,929	\$ 986,239
Payroll taxes	47,377	8,871	10,646	66,894
Fringe benefits	96,234	17,097	23,596	136,927
Special events:				
Breakfast	0	0	35,681	35,681
Golf tournament-Indirect cost	0	0	6,402	6,402
Legacy dinner-Indirect cost	0	0	18,818	18,818
Professional services	20,000	0	0	20,000
Promotion and development	2,648	5,460	126,976	135,084
Rent	48,078	0	0	48,078
Maintenance and repair	10,447	706	259	11,413
Utilities	27,746	2,284	1,142	31,172
Food	10,594	0	0	10,594
Lodging	10,893	0	0	10,893
Recreation	49,612	0	0	49,612
Supplies	27,733	0	0	27,733
JustLead grants	141,889	0	0	141,889
Other program	95,347	0	0	95,347
Postage	325	1,735	279	2,339
Telephone	11,627	1,251	1,521	14,399
Office	26,024	30,944	4,354	61,322
Insurance	13,878	1,491	1,424	16,793
Training	25,266	6,541	1,510	33,317
Transportation	11,700	0	0	11,700
Depreciation	69,980	3,569	2,914	76,463
	<u>\$ 1,455,889</u>	<u>\$ 207,767</u>	<u>\$ 385,453</u>	<u>\$ 2,049,108</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 732,497	\$ 133,830	\$ 121,809	\$ 988,137
Payroll taxes	54,539	9,965	9,098	73,603
Fringe benefits	108,606	17,872	20,269	146,746
Special events:				
Breakfast	0	0	34,781	34,781
Golf tournament-Indirect cost	0	0	5,903	5,903
Legacy dinner-Indirect cost	0	0	18,643	18,643
Promotion and development	2,380	4,566	50,662	57,609
Rent	48,078	0	0	48,078
Maintenance and repair	8,503	252	252	9,006
Utilities	27,233	1,073	1,073	29,378
Food	10,799	0	0	10,799
Lodging	12,838	0	0	12,838
Recreation	19,281	0	0	19,281
Supplies	26,485	0	0	26,485
JustLead grants	156,192	0	0	156,192
Other program	78,370	0	0	78,370
Postage	93	1,646	110	1,849
Telephone	11,745	923	1,617	14,285
Office	23,245	20,558	2,175	45,978
Insurance	15,369	1,614	1,495	18,478
Training	23,763	3,458	748	27,969
Transportation	7,189	0	0	7,189
Depreciation	73,126	4,739	2,896	80,761
	<u>\$ 1,440,330</u>	<u>\$ 200,495</u>	<u>\$ 271,531</u>	<u>\$ 1,912,355</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH PROVIDED(USED) BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ (484,057)	\$ (517,209)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	76,463	80,761
Donated equipment	(29,570)	0
(Increase)decrease in:		
Pledges receivable	503,113	583,960
Grants receivable	(15,522)	372
Increase(decrease) in:		
Accounts payable	(2,656)	2,656
Accrued salaries	0	(122)
	<u>531,828</u>	<u>667,629</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	47,771	150,421
<b>CASH PROVIDED(USED) BY FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(21,490)	(20,427)
Principal payments on notes payable	0	(90,000)
	<u>0</u>	<u>(90,000)</u>
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<u>(21,490)</u>	<u>(110,427)</u>
<b>NET INCREASE IN CASH</b>	26,281	39,994
<b>CASH AT THE BEGINNING OF THE YEAR</b>	<u>120,602</u>	<u>80,608</u>
<b>CASH AT THE END OF THE YEAR</b>	<u>\$ 146,884</u>	<u>\$ 120,602</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 1,489	\$ 2,499

See the accompanying notes to the financial statements.

## EMERALD YOUTH FOUNDATION

### **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2010 and 2009

#### **NOTE A - DESCRIPTION OF ORGANIZATION**

Emerald Youth Foundation (the Foundation) is a nonprofit organization that was incorporated in 1991 and serves Knoxville, Tennessee's urban youth. The Foundation's mission is to raise up a large number of urban youth to love Jesus Christ and become effective leaders who help renew their communities.

The Foundation takes the hands of at-risk boys and girls in the heart of Knoxville and walks with them until they are young adults. Through a comprehensive and Christian ministry of faith, education, and sports programs, conducted in partnership with neighborhood churches, the Foundation is helping to create and shape the leaders who will make a positive difference here and in communities around the world. The Foundation's involvement is deep and meaningful, begins at childhood, continues through young adulthood, and every year has a lasting and life-changing impact on more than a thousand young people, their families, their peers, and Knoxville.

The Foundation, formed by Emerald Avenue United Methodist Church, functions under a governing structure that includes a Board of Trustees and a Board of Advisors. The Foundation primarily serves youth and young adults, ages 6 – 25, in Knoxville's urban neighborhoods, including the federally-designated Empowerment Zone. Foundation programs are conducted at 1718 North Central Street, 1620 North Central Street and 2210 Virginia Avenue. The Foundation also collaborates with other inner-city churches of varying denominations to provide program components to youth in the churches' neighborhoods. Curriculum, training, data collection and reporting tools, quality assurance, capacity building resources and some financial support is provided to the churches.

The Foundation receives financial support from individuals, businesses, foundation, churches, grants, civic organizations and government entities primarily in the Knoxville area. Additionally, the Foundation is funded by a federal AmeriCorps grant that began in 1998 and is utilized to supplement the non-religious components of the Foundation.

#### **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from those estimates. Estimates are used when accounting for fair value of pledges, allowances for uncollectible receivables, depreciation, allocation of expenses, and contingencies, among others.

EMERALD YOUTH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2010 and 2009

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits. For purposes of the statements of cash flows, the Foundation considers cash on deposit with financial institutions and all cash investments with original maturities of three months or less to be cash and cash equivalents.

Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, and pledges receivable: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

Pledges Receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable 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 pledge is received. Amortization of the discount is included in contributions. Conditional promises to give are not recorded as support until such time as the conditions are substantially met.

Property and Equipment

Property and equipment includes the use of a building donated under a lease arrangement as described in Note I. Property and equipment are recorded at cost or estimated cost if actual cost is not available. Donated property and equipment are recorded at the estimated fair value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to fifteen years. Depreciation expense for the years ended December 31, 2010 and 2009 was \$76,463 and \$80,761, respectively. The Foundation generally capitalizes all expenditures for equipment in excess of \$1,000. Costs of maintenance and repair are expensed as incurred.

EMERALD YOUTH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2010 and 2009

**Support and Revenue**

Contributions are recorded as support when cash or other assets are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. 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. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted support. Revenue from services is recognized when the service is rendered.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

**Functional Expense Allocation**

The costs to provide various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the program and supporting services benefited. Expenses directly related to a specific function are charged to that function. Indirect expenses are allocated among the program and supporting services benefited.

**Income Taxes**

The Foundation is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code, except on unrelated business income.

EMERALD YOUTH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2010 and 2009

**NOTE C - PLEDGES RECEIVABLE**

Pledges receivable are recorded at the present value of estimated future cash flows using a discount rate of 3.50%. Unconditional pledges receivable at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Amounts due in:		
Less than one year	\$ 806,564	\$ 766,170
Allowance for uncollectible pledges	<u>(19,650)</u>	<u>(19,650)</u>
	786,914	746,520
One to five years	945,110	1,555,931
Present value discount	<u>(105,863)</u>	<u>(173,178)</u>
	<u>839,247</u>	<u>1,382,753</u>
Net pledges receivable	<u>\$ 1,626,161</u>	<u>\$ 2,129,273</u>

**NOTE D - DEBT**

Long-term debt at December 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Note payable to a bank, interest rate of 6.75%, due in monthly installments of \$1,401 including interest through October 2011, secured by 2 mid-buses	\$ 14,028	\$ 29,350
Note payable to University of Tennessee, interest rate of 3%, due in monthly installments of \$514 including interest through March 2013, secured by van	<u>13,870</u>	<u>20,038</u>
	27,898	49,388
Less current maturities	<u>(19,682)</u>	<u>(22,978)</u>
	<u>\$ 8,216</u>	<u>\$ 26,410</u>

EMERALD YOUTH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2010 and 2009

Future maturities of long-term debt are as follows:

Year ending <u>December 31,</u>	
2011	\$ 19,682
2012	6,682
2013	<u>1,534</u>
	<u>\$ 27,898</u>

The Foundation has an unsecured bank line of credit in the amount of \$300,000 with a variable interest rate. There was no outstanding balance on this line of credit as of December 31, 2010.

**NOTE E - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
Building lease	\$ 228,000	\$ 285,000
Pledges receivable restricted for future periods	1,626,161	2,129,274
Other programs and ministries	<u>51,627</u>	<u>17,698</u>
	<u>\$ 1,905,788</u>	<u>\$ 2,431,971</u>

**NOTE F - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<u>2010</u>	<u>2009</u>
Building lease	\$ 57,000	\$ 57,000
Time restrictions	1,211,705	1,270,527
Other programs and ministries	<u>42,035</u>	<u>3,565</u>
	<u>\$ 1,310,740</u>	<u>\$ 1,331,093</u>

EMERALD YOUTH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2010 and 2009

**NOTE G - PENSION PLAN**

The Foundation participates in a 403(b) retirement plan. Employees are eligible to participate after one year of service. The Foundation contributes 3.5% of an employee's compensation to the plan, which is 100% vested immediately. Eligible employees are permitted to make salary-reduction contributions to the plan on a pre-tax basis subject to prescribed limits. Personal contributions on an after-tax basis may also be made subject to limitations. Employees may elect to allocate their money between various different investment options. The Foundation has the right to terminate participation in the plan at any time by giving written notice to the plan administrator. The Foundation contributed \$27,128 for the year ended December 31, 2010 and \$27,080 for the year ended December 31, 2009.

**NOTE H - DONATED GOODS, SERVICES AND USE OF FACILITIES**

Donated goods and services are recorded in the financial statements at the fair value of the goods and services received. Donated goods and services for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Fundraising events	\$ 17,041	\$ 19,506
Use of facilities	48,078	48,078
Mobile learning lab	29,400	0
Various administrative and program supplies	<u>9,118</u>	<u>2,173</u>
	<u>\$ 103,637</u>	<u>\$ 69,757</u>

**NOTE I - LEASE**

Effective January 1, 2000, the Foundation entered into a lease agreement with a major contributor for a building and related improvements. The lease is for an initial term of five years and the Foundation has the option of two additional five-year renewals. The base rent for the facility is \$1 per year throughout the initial term and any renewal terms so long as the Foundation remains a tax-exempt organization and occupies and uses the facility as a neighborhood youth center consistent with the Foundation's mission and purpose. The fair value of this contribution is approximately \$855,000 over the lease term and has been included, net of the related accumulated amortization, in property and equipment.

EMERALD YOUTH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2010 and 2009

**NOTE J - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of pledges receivable. Approximately 85% of unconditional promises to give at December 31, 2010 are due from eight contributors or related contributors (approximately 85% from six contributors at December 31, 2009).

**NOTE K - ENDOWMENT FUND**

An endowment fund has been established at the East Tennessee Foundation for the benefit of the Emerald Youth Foundation. Under the terms of the fund agreement, the East Tennessee Foundation has variance power and is the legal owner of the fund. Accordingly, the endowment fund is not reported in the accompanying financial statements. Emerald Youth Foundation is the beneficiary of the fund and can receive distributions of income in accordance with the Foundation's spending policies.

**NOTE L - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 30, 2011, which is the date the financial statements were available to be issued.