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**YOUTH ENRICHMENT SERVICES, INC.**

**Financial Statements**

**June 30, 2010**

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**YOUTH ENRICHMENT SERVICES, INC.**

**June 30, 2010**

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## Independent Auditors' Report

To the Board of Directors  
Youth Enrichment Services, Inc.  
Boston, Massachusetts

We have audited the accompanying statement of financial position of Youth Enrichment Services, Inc. (a not-for-profit organization) as of June 30, 2010, and the related statement of activities and changes in net assets, functional expenses and cash flows 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 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 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 provides 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 Youth Enrichment Services, Inc. as of June 30, 2010, and the changes in its net assets, functional expenses and its cash flows for the year then ended in conformity with accounting principles generally accented in the United States of America.

*Edelstein & Company LLP*

Boston, Massachusetts  
February 18, 2011

# YOUTH ENRICHMENT SERVICES, INC.

## Statement of Financial Position June 30, 2010

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### Assets

#### Current assets:

|                                |                |
|--------------------------------|----------------|
| Cash and cash equivalents      | \$ 335,441     |
| Unconditional promises to give | 5,000          |
| Inventory                      | 47,587         |
| Prepaid expenses               | 3,924          |
| <b>Total current assets</b>    | <u>391,952</u> |

**Property and equipment, net** 390,923

**Deferred financing fees** 15,549

**Total assets** 798,424

### Liabilities and net assets

#### Current liabilities:

|                                       |               |
|---------------------------------------|---------------|
| Accounts payable and accrued expenses | 9,412         |
| Accrued severance                     | 16,500        |
| Mortgage payable, current portion     | 9,271         |
| Security deposit                      | 2,600         |
| <b>Total current liabilities</b>      | <u>37,783</u> |

**Mortgage payable** 433,775

#### Net assets:

|                         |                |
|-------------------------|----------------|
| Unrestricted            | 228,341        |
| Temporarily restricted  | 98,525         |
| <b>Total net assets</b> | <u>326,866</u> |

**Total liabilities and net assets** \$ 798,424

# YOUTH ENRICHMENT SERVICES, INC.

## Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2010

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-------------------|
| <b>Revenue and support:</b>                          |                     |                                   |                   |
| Contributions  | \$ 492,485          | \$ 34,927                         | \$ 527,412        |
| Fundraising events                                   | 81,913              | -                                 | 81,913            |
| In-kind donations                                    | 229,508             | -                                 | 229,508           |
| Participant fees                                     | 116,366             | -                                 | 116,366           |
| Rental income  | 33,000              | -                                 | 33,000            |
| Interest and dividends                               | 554                 | -                                 | 554               |
| Realized gains on sale of investments                | 4,999               | -                                 | 4,999             |
| Net assets released during the year from restriction | 86,938              | (86,938)                          | -                 |
| <b>Total revenue and support</b>                     | <u>1,045,763</u>    | <u>(52,011)</u>                   | <u>993,752</u>    |
| <b>Expenses:</b>                                     |                     |                                   |                   |
| Program expenses                                     | 892,967             | -                                 | 892,967           |
| General and administrative                           | 103,511             | -                                 | 103,511           |
| Fundraising  | 179,876             | -                                 | 179,876           |
| <b>Total expenses</b>                                | <u>1,176,354</u>    | <u>-</u>                          | <u>1,176,354</u>  |
| <b>Changes in net assets from operations</b>         | (130,591)           | (52,011)                          | (182,602)         |
| <b>Net assets, beginning of year</b>                 | <u>358,932</u>      | <u>150,536</u>                    | <u>509,468</u>    |
| <b>Net assets, end of year</b>                       | <u>\$ 228,341</u>   | <u>\$ 98,525</u>                  | <u>\$ 326,866</u> |

## YOUTH ENRICHMENT SERVICES, INC.

### Statement of Functional Expenses For the Year Ended June 30, 2010

|  | Snow Sports<br>Program | Outdoor<br>Adventure | YES Academy       | Total Program<br>Expenses | General and<br>Administrative | Fundraising       | Total               |
|--|------------------------|----------------------|-------------------|---------------------------|-------------------------------|-------------------|---------------------|
| Salaries, employee benefits, and payroll taxes | \$ 194,301             | \$ 62,271            | \$ 137,977        | \$ 394,549                | \$ 28,913                     | \$ 106,681        | \$ 530,143          |
| Advertising                                    | 3,834                  | 1,534                | 1,534             | 6,902                     | -                             | 767               | 7,669               |
| Conferences and meetings                       | -                      | -                    | -                 | -                         | 3,892                         | -                 | 3,892               |
| Depreciation and amortization                  | 67,007                 | 6,678                | 7,610             | 81,295                    | 17,258                        | 1,950             | 100,503             |
| Equipment, supplies, food and maintenance      | 10,770                 | 4,308                | 4,308             | 19,386                    | 1,077                         | 1,077             | 21,540              |
| Fundraising                                    | 9,825                  | 1,973                | 4,042             | 15,840                    | -                             | 29,117            | 44,957              |
| Insurance                                      | 13,523                 | 3,381                | 3,381             | 20,285                    | 1,127                         | 1,127             | 22,539              |
| Lift tickets and lodging                       | 23,011                 |                      |                   | 23,011                    |                               |                   | 23,011              |
| Lift tickets and lodging in-kind               | 154,116                |                      |                   | 154,116                   |                               |                   | 154,116             |
| Occupancy                                      | 16,488                 | 4,122                | 6,183             | 26,793                    | 12,366                        | 2,061             | 41,220              |
| Occupancy in-kind                              | 3,750                  | 3,750                | -                 | 7,500                     | -                             | -                 | 7,500               |
| Office supplies and expenses                   | 5,084                  | 1,271                | 1,907             | 8,262                     | 3,937                         | 636               | 12,835              |
| Grants   | 20,500                 | 5,750                |                   | 26,250                    | -                             |                   | 26,250              |
| Professional fees                              | 2,460                  | -                    | -                 | 2,460                     | 26,913                        | 36,002            | 65,375              |
| Scholarship awards                             |                        |                      | 15,251            | 15,251                    | -                             |                   | 15,251              |
| Staff training                                 | 18,593                 | 454                  | 454               | 19,501                    | 454                           | 227               | 20,182              |
| Telephone and internet                         | 1,850                  | 463                  | 694               | 3,007                     | 1,388                         | 231               | 4,626               |
| Transportation and travel                      | 57,734                 | 7,217                | 3,608             | 68,559                    | 6,186                         | -                 | 74,745              |
| Total expenses                                 | <u>\$ 602,846</u>      | <u>\$ 103,172</u>    | <u>\$ 186,949</u> | <u>\$ 892,967</u>         | <u>\$ 103,511</u>             | <u>\$ 179,876</u> | <u>\$ 1,176,354</u> |

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

# YOUTH ENRICHMENT SERVICES, INC.

## Statement of Cash Flows For the Year Ended June 30, 2010

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### Cash flows used in operating activities:

|  |                         |
|--|-------------------------|
| Changes in net assets  | \$ (182,602)            |
| Adjustments to reconcile changes in net assets to cash provided by operating activities: |                         |
| Depreciation and amortization  | 87,421                  |
| Realized gains   | (4,999)                 |
| Changes in operating assets and liabilities:   |                         |
| Unconditional promises to give   | (5,000)                 |
| Inventory  | (47,587)                |
| Prepaid expenses   | 812                     |
| Accounts payable and accrued expenses  | (180)                   |
| Accrued severance  | 16,500                  |
| Rental security deposit  | 200                     |
| Income taxes payable   | (1,247)                 |
| <b>Net cash used in operating activities</b>   | <u><u>(136,682)</u></u> |

### Cash flows provided by investing activities:

|  |                      |
|--|----------------------|
| Purchase of investments                          | (8,652)              |
| Proceeds from sale of investments                | 43,258               |
| Purchase of property and equipment               | (20,881)             |
| <b>Net cash provided by investing activities</b> | <u><u>13,725</u></u> |

### Cash flows provided by financing activities:

|  |                       |
|--|-----------------------|
| Borrowings on mortgage payable                   | 117,437               |
| Payments on mortgage payable                     | (24,491)              |
| Deferred financing costs                         | 17,277                |
| <b>Net cash provided by financing activities</b> | <u><u>110,223</u></u> |

**Net increase in cash** (12,734)

**Cash, beginning of year** 348,175

**Cash, end of year** \$ 335,441

### Supplemental disclosure:

Cash paid for interest \$ 24,491

Cash paid for income taxes \$ 7,253

### Noncash financing activities:

Refinance of mortgage payable \$ 315,587

# YOUTH ENRICHMENT SERVICES, INC.

## Notes to Financial Statements

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### 1. Organization Purpose

Youth Enrichment Services, Inc. (the “Organization”) provides recreation, outdoor education, and service opportunities to urban youth. The Organization also runs a job training program and provides scholarships to worthy students. Its core programs consist of the following:

*Snowsports* - the Organization partners with a number of ski slopes throughout New England to offer skiing and snowboarding trips. The ski areas and other retailers donate hundreds of thousands of dollars in lift tickets, lessons, and equipment each year.

*Outdoor Adventure* - One-day bike and hike tours take urban youth to state parks in and around Boston. Overnight camping trips take place at Swan Lodge in western Massachusetts, made available to the Organization by the Massachusetts Department of Conservation and Recreation.

*YES Academy* - Youth attend weekly sessions during the school year and are matched with adult mentors in the corporate world to develop workplace competencies and acquire job skills, and providing a career pathway for urban young adults to enter the snowsports and outdoor recreation industries.

The Organization derives its support primarily from contributions, conducting special events, and sliding scale fees from program participants.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, the Organization determines the classification of its net assets and its revenues based on the existence or absence of donor-imposed restrictions.

The net assets of the Organization are reported in three categories as follows:

- (1) Unrestricted net assets represent expendable resources available for support of the Organization’s operations.
- (2) Temporarily restricted net assets represent resources restricted by donors for specific purposes or the passage of time.
- (3) Permanently restricted net assets (endowment funds) represent resources which cannot be expended. Income on these invested endowment funds is utilized in accordance with the donors’ stipulations. The Organization has no permanently restricted net assets.



# YOUTH ENRICHMENT SERVICES, INC.

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (continued)

#### *Revenue and Support*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the use restriction or expiration of the time restriction. The Organization has elected to show those restricted contributions whose restrictions are met in the same reporting period as they are received as unrestricted support.

The Organization receives various types of in-kind support in the form of contributed services and other assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, as provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions tangible assets, such as equipment and inventory are recognized at fair value when received.

Participant fees are recognized when the trip or event occurs, and fees received prior to the commencement of the trip or event is recorded as deferred revenue.

The store-front portion of the building is leased to a commercial tenant with lease payments recorded ratably over the lease term.

#### *Cash*

Cash consists of deposits held in checking accounts at federally insured banks and money market funds.

#### *Inventory*

The Organization's inventory consists of ski apparel and equipment donated by manufacturers or retailers of ski equipment, and is recorded at its net realizable value. The inventory is typically sold to program participants and their families at a price below its fair value.

#### *Property and Equipment*

Property and equipment is stated at cost. Donated ski and camping equipment utilized for the Organization's programs are recorded at fair value at the date of donation. Depreciation is computed over the estimated useful lives of the assets using the straight-line method.

|                            |         |       |
|----------------------------|---------|-------|
| Buildings and improvements | 10 - 32 | years |
| Furniture and equipment    | 5-7     | years |
| Camping and ski equipment  | 7       | years |
| Motor vehicles             | 5       | years |

#### *Deferred Financing Fees*

Costs incurred in connection with the mortgage closing have been deferred and amortized over the term of the loan on a straight line basis. Amortization expense during the year ended June 30, 2010 was \$1,728, and amortization expense will be \$3,455 for each of the five succeeding years.

# YOUTH ENRICHMENT SERVICES, INC.

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (continued)

#### *Functional Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### *Income Taxes*

The Organization operates as a publicly supported tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes on related income.

The Organization has evaluated the tax positions taken on returns for open years and those expected to be taken on returns for the year ended June 30, 2010. It is management's belief that such tax positions are more likely than not to be sustained upon examination by tax authorities. Accordingly, no liability for uncertain tax positions has been reflected in these financial statements. Returns for tax years beginning with those filed for the year ended June 30, 2007 are open to examination.

The Organization had been paying unrelated business income tax on its rental income; management reevaluated its tax position in regard to this activity. Accordingly, management believes that since more than 85% of the use of its property is substantially related to its exempt purpose, the income derived from its rental activities does not generate unrelated business income. The Organization has filed for an abatement of the income taxes paid with the past three years of tax returns, and is awaiting a response from the Internal Revenue Service.

#### *Use of Estimates and Subsequent Events*

The presentation 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 contingencies at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Organization's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on February 18, 2011, the date these financial statements became available to be issued. No events have occurred subsequent to the balance sheet date and through the date of evaluation that meet the criteria required for disclosure or accrual.

# YOUTH ENRICHMENT SERVICES, INC.

## Notes to Financial Statements

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### 3. Property and Equipment

Major classes of property and equipment consist of the following:

|                                 |                   |
|---------------------------------|-------------------|
| Land                            | \$ 12,700         |
| Building and improvements       | 660,370           |
| Furniture and equipment         | 143,244           |
| Camping and ski equipment       | 232,780           |
| Motor vehicles                  | <u>66,508</u>     |
|                                 | 1,115,602         |
| Less - accumulated depreciation | <u>724,679</u>    |
| Total                           | <u>\$ 390,923</u> |

### 4. Mortgage

On August 27, 2009, the Organization refinanced its mortgage with Bank of America for the building at 410 Massachusetts Avenue, with a principle amount of \$450,000 and an annual interest rate of 5.53%. The mortgage requires monthly payments of principle and interest of \$2,793 through August 27, 2014, at which time a balloon payment of the outstanding principal balance is due. Loan proceeds were used to pay-off the previous mortgage having a balance of \$315,587, to cover closing costs and fees associated with the new loan, and the remaining proceeds were made available for general operations.

Future annual principal payments are as follows:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|------------------------------|---------------|
| 2011                         | \$ 9,271      |
| 2012                         | 9,797         |
| 2013                         | 10,353        |
| 2014                         | 10,939        |
| 2015                         | \$ 402,686    |

### 5. Line of Credit

The Organization has a line-of-credit with a bank permitting advances up to \$100,000. Advances bear interest at the bank's prime rate plus 1.75%. There were no outstanding borrowings on the line for the year ended June 30, 2010.

# YOUTH ENRICHMENT SERVICES, INC.

## Notes to Financial Statements

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### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for capital improvements as of June 30, 2010. Net assets released from restrictions of \$86,938 were for program related expenses for the year ending June 30, 2010.

### 7. Rental Income

The Organization entered into a lease with a commercial tenant which commenced on May 1, 2010 and terminates on April 30, 2011, with the option for the tenant to extend for one year. The lease provides for the Organization to receive monthly payments of \$2,600, including a deposit of the first month's rent. Minimum future base rentals to be received as of June 30, 2011 are \$26,000.

### 8. In-Kind Contributions

During the year ended June 30, 2010, the Organization received the following in-kind contributions:

|                              |                   |
|------------------------------|-------------------|
| Donated office equipment     | \$ 8,700          |
| Lift tickets and ski lessons | 154,116           |
| Ski equipment and apparel    | 59,192            |
| Facilities                   | <u>7,500</u>      |
|                              | <u>\$ 229,508</u> |

The Commonwealth of Massachusetts entered into a 25-year lease with the Organization which provides for the use of a chalet in western Massachusetts for a nominal rent of \$10 per year. In addition, the Organization uses a ski lodge in Killington, VT which is owned by one the members of the Board of Directors without charge. The Organization is able to offer its summer and winter programs at a substantially reduced fee as a result of having access to these lodging arrangements without charge.

### 9. Advertising

The Organization expenses the cost of advertising its programs as incurred. Advertising expenses for the years ended June 30, 2010 and 2009 were \$7,668 and \$9,884, respectively.

# YOUTH ENRICHMENT SERVICES, INC.

## Notes to Financial Statements

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### 10. Commitments – Severance

The Organization entered into a continuing employment and deferred compensation agreement with its former Executive Director. The agreement has a term of four years, commencing on April 1, 2009 and ending on April 1, 2013, and with an option to extend for additional one-year periods. The agreement provides for the former Executive Director to receive an annual salary of \$20,000 and health insurance benefits. In addition, at the end of each calendar year and through the termination of the continuing employment agreement, the Organization is required to deposit \$16,500 into the deferred compensation plan. Accordingly, the accrued severance balance at June 30, 2010 was \$16,500.

### 11. Retirement Plan

The Organization provides a 401(k) retirement plan for all eligible employees. The Organization provides for an employer match of employee deferrals in order to satisfy the average deferral percentage test and the average contribution percentage test. The Organization may also contribute an additional amount as determined by the Board of Directors. The amount charged to expense for the year ended June 30, 2010 and 2009 was \$9,830 and \$367, respectively.

### 12. Prior Period Adjustment

During the year ended June 30, 2010, the Organization determined that it had improperly capitalized the value of its free use of a chalet, owned by the Commonwealth of Massachusetts. Rather the value of the in-kind benefit should have been reported as a program expense off-set by an equal amount of revenue. Accordingly, a prior period adjustment was made to correct net assets at June 30, 2009. A reconciliation of the adjustment to beginning net assets is as follows:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-------------------|
| Net assets- beginning of year as previously reported | \$ 407,770          | \$ 150,536                        | \$ 558,306        |
| Correction of error                                  | <u>(48,838)</u>     | <u>-</u>                          | <u>(48,838)</u>   |
| Net assets- beginning of year as corrected           | <u>\$ 358,932</u>   | <u>\$ 150,536</u>                 | <u>\$ 509,468</u> |