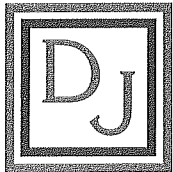


YouthLaunch, Inc.
Financial Statements and
Independent Auditors' Report
July 31, 2009 and 2008

YouthLaunch, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
YouthLaunch, Inc.

We have audited the accompanying statements of financial position of YouthLaunch, Inc. (a Texas nonprofit corporation) as of July 31, 2009 and 2008 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of YouthLaunch, Inc. as of July 31, 2009 and 2008 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.

DUNAGAN JACK LLP

Austin, Texas
December 8, 2009

FINANCIAL STATEMENTS

YouthLaunch, Inc.

STATEMENTS OF FINANCIAL POSITION

July 31,

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 29,876	\$ 8,312
Accounts receivable	31,260	49,778
Contributions receivable (Note C)	174,976	57,626
Other receivables	-	964
Prepaid expenses and other assets	3,000	3,000
Furniture and equipment (Note D)	<u>31,577</u>	<u>15,192</u>
Total assets	<u><u>\$ 270,689</u></u>	<u><u>\$ 134,872</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 26,595	\$ 36,421
Line of credit (Note E)	19,159	34,228
Deferred rent obligation (Note H)	<u>7,533</u>	<u>7,533</u>
Total liabilities	<u>53,287</u>	<u>78,182</u>
Net assets		
Unrestricted	54,902	11,690
Temporarily restricted (Note F)	162,500	45,000
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>217,402</u>	<u>56,690</u>
Total liabilities and net assets	<u><u>\$ 270,689</u></u>	<u><u>\$ 134,872</u></u>

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

YouthLaunch, Inc.

STATEMENTS OF ACTIVITIES

For the years ended July 31,

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets		
Revenues		
Government grants and contracts	\$ 540,255	\$ 637,106
Contributions	128,692	116,002
In-kind donations	40,947	52,762
Product sales	24,097	19,879
Other	5,816	443
Total unrestricted revenues	<u>739,807</u>	<u>826,192</u>
Net assets released from restrictions (Note F)	<u>253,676</u>	<u>109,286</u>
Total unrestricted revenues and other support	<u>993,483</u>	<u>935,478</u>
Expenses		
Program services (Note G)	861,327	917,001
General and administrative	57,444	46,995
Fundraising	31,500	51,635
Total expenses	<u>950,271</u>	<u>1,015,631</u>
Increase (decrease) in unrestricted net assets	<u>43,212</u>	<u>(80,153)</u>
Changes in temporarily restricted net assets		
Contributions	371,176	149,286
Net assets released from restrictions (Note F)	<u>(253,676)</u>	<u>(109,286)</u>
Increase (decrease) in temporarily restricted net assets	<u>117,500</u>	<u>40,000</u>
Changes in permanently restricted net assets	<u>-</u>	<u>-</u>
Change in net assets	160,712	(40,153)
Net assets at beginning of year	<u>56,690</u>	<u>96,843</u>
Net assets at end of year	<u>\$ 217,402</u>	<u>\$ 56,690</u>

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

YouthLaunch, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2009

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and benefits	\$ 453,500	\$ 26,540	\$ 22,615	\$ 502,655
Contracted & professional services	213,538	9,489	1,859	224,886
Rent and occupancy	60,554	940	960	62,454
In-kind donations	38,697	2,250	-	40,947
Miscellaneous	17,375	15,505	2,214	35,094
Project supplies	26,364	-	3,083	29,447
Travel	23,889	617	-	24,506
Scholarships	17,500	-	-	17,500
Insurance	4,843	1,226	429	6,498
Supplies	5,067	877	340	6,284
	<u>\$ 861,327</u>	<u>\$ 57,444</u>	<u>\$ 31,500</u>	<u>\$ 950,271</u>

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

YouthLaunch, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2008

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and benefits	\$ 411,515	\$ 25,468	\$ 33,639	\$ 470,622
Contracted & professional services	321,122	3,047	714	324,883
Rent and occupancy	58,825	3,110	1,181	63,116
In-kind donations	50,548	2,214	-	52,762
Miscellaneous	13,651	8,268	14,203	36,122
Project supplies	27,363	-	730	28,093
Supplies	10,509	2,670	683	13,862
Travel	12,800	786	-	13,586
Insurance	5,168	1,432	485	7,085
Scholarships	5,500	-	-	5,500
	<u>\$ 917,001</u>	<u>\$ 46,995</u>	<u>\$ 51,635</u>	<u>\$ 1,015,631</u>

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

YouthLaunch, Inc.

STATEMENTS OF CASH FLOWS

For the years ended July 31,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 160,712	\$ (40,153)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	7,758	3,767
Decrease in accounts receivable	18,518	34,884
Increase in contributions receivable	(117,350)	(52,626)
Decrease (increase) in other receivables	964	(964)
Increase (decrease) in accounts payable and accrued expenses	(9,826)	816
Net cash provided (used) by operating activities	<u>60,776</u>	<u>(54,276)</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	(24,143)	(7,645)
Net cash used by investing activities	<u>(24,143)</u>	<u>(7,645)</u>
Cash flows from financing activities:		
Line of credit advances and payments, net	(15,069)	34,228
Net cash provided (used) by financing activities	<u>(15,069)</u>	<u>34,228</u>
Net increase (decrease) in cash and cash equivalents	21,564	(27,693)
Cash and cash equivalents at beginning of year	8,312	36,005
Cash and cash equivalents at end of year	<u>\$ 29,876</u>	<u>\$ 8,312</u>
Amounts paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ 3,037</u>	<u>\$ 681</u>

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

NOTES TO FINANCIAL STATEMENTS

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS

July 31, 2009 and 2008

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

YouthLaunch, Inc. (Organization) is a dynamic nonprofit organization that engages young people as service providers, with the dual goals of addressing a community need while simultaneously changing the trajectory of the lives of the young people providing the service. The Organization envisions a world in which all young people are healthy and resilient and have the opportunity to develop the knowledge and skills to make meaningful contributions to society. The Organization's mission is to provide empowering service experiences for young people. The Organization achieves this through innovative programs that combine best practices of positive youth development with transformative powers of service. The major programs of the organization include: No Kidding; Straight Talk from Teen Parents; Youth Partnership for Change; Urban Roots; and the YouthLaunch Scholarship for Outstanding Service. The Organization is supported primarily through grants, contracts and contributions. In 2004, the Organization changed its name from Peer Assistance Network of America, Inc.

2. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

3. Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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.

4. Contributions

The Organization records contributions using the guidance of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Organization's policy is to report restricted support that is satisfied in the year of receipt first as temporarily restricted and then reclassified to unrestricted net assets.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2009 and 2008

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Revenue Recognition

Government grants and contracts have been reported as exchange transactions and not as contributions in these financial statements. Management estimates that all accounts receivable are collectible; therefore, no allowance for uncollectible receivables has been reported in these financial statements.

6. Cash Equivalents

The Organization considers all highly liquid securities purchased with initial maturities of three months or less to be cash equivalents.

7. Furniture and Equipment

Acquisitions of property and equipment are capitalized at cost, if purchased, or fair market value on the date of donation, if received as a gift. The Organization capitalizes furniture and equipment over \$1,000. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, generally five to seven years. 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 expiration of restrictions when the assets are placed into service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Maintenance and repairs are charged to expense as incurred.

8. Functional Allocation of Expenses

Expenses are categorized by function in the statements of activities and functional expenses as either (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to each function.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2009 and 2008

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

10. Fair Value of Financial Instruments

The carrying amounts reflected in the statements of financial position for financial instruments approximate their respective fair values due to the composition and maturity of those instruments. None of the financial instruments are held for trading purposes.

NOTE B - TAX EXEMPT STATUS

YouthLaunch, Inc. is exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). In addition, the Organization has been determined not to be a private foundation within the meaning of Section 509(a) of the Code. Therefore, no provision for income taxes has been included in these financial statements.

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable are from multiple donors. As of July 31, 2009, \$76,500 promised by one donor is payable \$51,000 in the fiscal year ending July 31, 2010 and \$25,500 in the fiscal year ending July 31, 2011. All other contributions receivable are expected to be collected within one year. All contributions receivable are considered fully collectible; therefore, no allowances for uncollectible contributions receivable has been reported in these financial statements. Also, no discount to present value has been reported because it is immaterial to these financial statements.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2009 and 2008

NOTE D - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at July 31,

	2009	2008
Vans	\$ 21,809	\$ -
Computer equipment	21,556	19,222
Furniture and equipment	5,212	5,212
Total Equipment	48,577	24,434
Accumulated depreciation	(17,000)	(9,242)
Net Equipment	<u>\$ 31,577</u>	<u>\$ 15,192</u>

Depreciation expense totaled \$7,758 and \$3,767 for the years ended July 31, 2009 and 2008, respectively.

NOTE E - LINE OF CREDIT

On March 6, 2008, the Organization opened a line of credit promissory note for \$40,000 with an interest rate of 8% per annum. Installment payments equal to the amount of all accrued interest were due and payable on the 1st day of April, 2008, and the 1st day of each consecutive month thereafter until February 2009. The original maturity date of March 1, 2009 was extended to December 2009 when all outstanding principal and accrued interest is due and payable. The loan is secured by all present and future accounts, inventory, equipment, fixtures of any kind and character and all other property held by the Organization. The balance at July 31, 2008 was \$34,228.

On May 28, 2009, the line of credit promissory note was revised for \$60,000 with an interest rate of 8% per annum. Installment payments equal to the amount of all accrued interest are due and payable on the 1st day of July, 2009, and the 1st day of each consecutive month thereafter until June 2010. On June 1, 2010, all outstanding principal and accrued interest will be due and payable. The loan is secured by all present and future accounts, inventory, equipment, fixtures of any kind and character and all other property held by the Organization. The balance at July 31, 2009 was \$19,159.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2009 and 2008

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at July 31,

	<u>2009</u>	<u>2008</u>
Urban Roots	\$ 111,500	\$ -
Healthy Choices	45,000	45,000
Scholarships	<u>6,000</u>	<u>-</u>
	<u>\$ 162,500</u>	<u>\$ 45,000</u>

Restrictions were satisfied as follows for the years ended July 31,

	<u>2009</u>	<u>2008</u>
Urban Roots	\$ 169,456	\$ 74,286
Healthy Choices	60,000	30,000
Scholarships	10,500	-
Other	<u>13,720</u>	<u>5,000</u>
	<u>\$ 253,676</u>	<u>\$ 109,286</u>

NOTE G - PROGRAM SERVICE EXPENSES

Program services consist of the following programs for the years ended July 31,

	<u>2009</u>	<u>2008</u>
No Kidding Austin	\$ 283,854	\$ 335,997
Urban Roots	170,494	151,162
Youth Partnership for Change	146,483	166,413
Programs - Other	106,675	73,583
No Kidding Texas	103,666	166,196
Scholarship	<u>50,155</u>	<u>23,650</u>
	<u>\$ 861,327</u>	<u>\$ 917,001</u>

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2009 and 2008

NOTE G - PROGRAM SERVICE EXPENSES - CONTINUED

In-kind expenses, primarily for class room space for the No Kidding and Urban Roots programs, have been reported as program service expenses in these financial statements. Urban Roots volunteer services of \$28,098 and \$12,819 for the years ended July 31, 2009 and 2008, respectively, have not been reported in these financial statements pursuant to the guidance of SFAS No. 116.

NOTE H - COMMITMENTS

In November 2006, the Organization executed a five year operating lease agreement for new office space. This lease consisted of escalating rental payments that will be expensed on the straight-line basis over the five year lease period ending in February 2012. The difference between the actual cash payments and the straight-line expense is recorded as deferred rent in these financial statements.

The Organization leases farmland for the Urban Roots program. A new operating lease agreement commences January 1, 2010 through December 31, 2012 for \$1,200 monthly.

The Organization has operating lease agreements for office and phone equipment that include monthly maintenance agreements.

Contractual services for program evaluation are payable through December 31, 2009.

Future minimum lease payments at July 31, 2009 are as follows:

Years ending July 31,	Building	Farm	Equipment	Contractual
2010	\$ 29,982	\$ 8,400	\$ 4,530	\$ 16,750
2011	31,074	14,400	4,530	-
2012	18,498	14,400	4,530	-
2013	-	6,000	400	-
2014	-	-	-	-

Total rental expense under operating leases for the years ended July 31, 2009 and 2008, was \$50,271 and \$45,131, respectively.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2009 and 2008

NOTE I - RETIREMENT PLAN

Effective August 1, 2007, the Organization established the YouthLaunch 401(k) PSP (Profit Sharing Plan (the Plan) with Sterling Trust Company. The Organization may make discretionary contributions to the Plan. The Organization made matching contribution of 3% through December 2008 and 1% subsequent to December 2008 for each eligible employee. Retirement plan expense for the years ended July 31, 2009 and 2008 totaled \$4,641 and \$7,757, respectively.

NOTE J - RELATED PARTY TRANSACTIONS

Certain members of the Board of Directors contributed approximately \$60,000 and \$52,000 during the years ended July 31, 2009 and 2008, respectively.

NOTE K - CONDITIONAL PLEDGE

During the year ended July 31, 2007, a long-time friend of the Organization instituted a donation matching challenge to encourage donor giving and build cash reserves. The matching challenge was restructured during 2008 to match dollar-for-dollar the first \$25,000 raised for the strategic reserve initiative and one dollar for every two dollars raised for the next \$25,000 donated towards the strategic reserve. Strategic reserve contributions of \$30,379 and \$15,470 were recognized for the years ended July 31, 2009 and 2008, respectively. Strategic reserve pledges receivable of \$1,952 and \$8,910 has been reported in contributions receivable as of July 31, 2009 and 2008, respectively.

The Organization received a \$135,000 Community Investment Grant Award from United Way for the periods January 1, 2008 through June 30, 2010. This award was conditioned upon the successful completion of United Way's fundraising efforts throughout the award period. The Organization has collected \$90,000 of this grant and has a funding letter for the additional \$45,000 for the period ending June 30, 2010. A contribution receivable of \$45,000 has been recorded in these financial statements.

NOTE L - GRANTOR AUDITS

The Organization receives federal, state and local grants and contracts for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in requests for reimbursement by the grantor agencies for expenditures disallowed under terms and conditions of the appropriate agency. In the opinion of the Organization's management, such disallowances, if any, will not be significant.