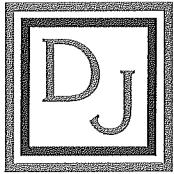


YouthLaunch, Inc.
Financial Statements and
Independent Auditors' Report
July 31, 2008 and 2007

YouthLaunch, Inc.

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	3
Financial Statements	
Statements of Financial Position	5
Statements of Activities	6
Statement of Functional Expenses - 2008	7
Statement of Functional Expenses - 2007	8
Statements of Cash Flows	9
Notes to Financial Statements	11



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
YouthLaunch, Inc.

We have audited the accompanying statement of financial position of YouthLaunch, Inc. (a Texas nonprofit corporation) as of July 31, 2008 and the related statements of activities, 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. The financial statements of YouthLaunch, Inc. as of July 31, 2007, were audited by other auditors whose report dated February 12, 2008, expressed an unqualified opinion on those statements.

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 YouthLaunch, Inc. as of July 31, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DUNAGAN JACK LLP

Austin, Texas
December 4, 2008

FINANCIAL STATEMENTS

YouthLaunch, Inc.

STATEMENTS OF FINANCIAL POSITION

July 31,

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 8,312	\$ 36,005
Grants receivable	49,778	84,662
Contributions receivable (Note C)	57,626	5,000
Other receivables	964	-
Prepaid expenses and other assets	3,000	3,000
Furniture and equipment (Note D)	<u>15,192</u>	<u>11,314</u>
Total assets	<u>\$ 134,872</u>	<u>\$ 139,981</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 36,421	\$ 35,605
Line of credit (Note E)	34,228	-
Deferred rent obligation (Note H)	<u>7,533</u>	<u>7,533</u>
Total liabilities	<u>78,182</u>	<u>43,138</u>
Net assets		
Unrestricted	11,690	91,843
Temporarily restricted (Note F)	45,000	5,000
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>56,690</u>	<u>96,843</u>
Total liabilities and net assets	<u>\$ 134,872</u>	<u>\$ 139,981</u>

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

YouthLaunch, Inc.

STATEMENTS OF ACTIVITIES

For the years ended July 31,

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets		
Revenues		
Program service grants	\$ 637,106	\$ 585,249
Contributions	116,002	102,878
In-kind donations	52,762	21,310
Product sales	19,879	4,266
Other	443	4,342
Total unrestricted revenues	<u>826,192</u>	<u>718,045</u>
Net assets released from restrictions (Note F)	<u>109,286</u>	<u>30,000</u>
Total unrestricted revenues and other support	<u>935,478</u>	<u>748,045</u>
Expenses		
Program services (Note G)	917,001	646,241
General and administrative	46,995	55,327
Fundraising	51,635	16,112
Total expenses	<u>1,015,631</u>	<u>717,680</u>
Increase (decrease) in unrestricted net assets	<u>(80,153)</u>	<u>30,365</u>
Changes in temporarily restricted net assets		
Contributions	149,286	10,000
Net assets released from restrictions (Note F)	<u>(109,286)</u>	<u>(30,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>40,000</u>	<u>(20,000)</u>
Changes in permanently restricted net assets	<u>-</u>	<u>-</u>
Change in net assets	(40,153)	10,365
Net assets at beginning of year	<u>96,843</u>	<u>86,478</u>
Net assets at end of year	<u>\$ 56,690</u>	<u>\$ 96,843</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 services	321,122	3,047	714	324,883
Rent and occupancy	54,600	3,033	1,181	58,814
In-kind donations	50,548	2,214	-	52,762
Miscellaneous	19,151	8,268	14,203	41,622
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
Communications	4,225	77	-	4,302
	<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.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2007

	Program Services	General and Administrative	Fundraising	Total
Compensation and benefits	\$ 335,865	\$ 28,795	\$ 1,740	\$ 366,400
Contracted services	181,072	12,794	10	193,876
Rent and occupancy	36,639	5,887	78	42,604
Miscellaneous	11,293	4,170	14,013	29,476
Project supplies	26,949	-	180	27,129
In-kind donations	21,310	-	-	21,310
Travel	15,346	27	-	15,373
Supplies	11,065	2,454	44	13,563
Communications	4,935	25	-	4,960
Insurance	1,767	1,175	47	2,989
	<u>\$ 646,241</u>	<u>\$ 55,327</u>	<u>\$ 16,112</u>	<u>\$ 717,680</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>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (40,153)	\$ 10,365
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	3,767	2,070
Decrease (increase) in grants receivable	34,884	(32,934)
Increase in contributions receivable	(52,626)	(1,645)
Increase in other receivables	(964)	-
Increase in prepaid expenses and other assets	-	(940)
Increase (decrease) in accounts payable and accrued expenses	816	3,206
Increase in deferred rent obligation	-	7,533
Net cash used by operating activities	<u>(54,276)</u>	<u>(12,345)</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	<u>(7,645)</u>	<u>(10,190)</u>
Net cash used by investing activities	<u>(7,645)</u>	<u>(10,190)</u>
Cash flows from financing activities:		
Line of credit advances and payments, net	<u>34,228</u>	<u>-</u>
Net cash provided by financing activities	<u>34,228</u>	<u>-</u>
Net decrease in cash and cash equivalents	(27,693)	(22,535)
Cash and cash equivalents at beginning of year	<u>36,005</u>	<u>58,540</u>
Cash and cash equivalents at end of year	<u>\$ 8,312</u>	<u>\$ 36,005</u>
Amounts paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ 681</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS

July 31, 2008 and 2007

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; SEEDS (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, 2008 and 2007

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Revenue Recognition

The Organization is primarily funded through government grants and contracts. These grants and contracts have been reported as exchange transactions and not as contributions in these financial statements. Grants receivable are expected to be collected within one year. The Organization did not provide an allowance for uncollectible grants receivable as it has subsequently collected all of its receivables recorded as of July 31, 2008 and 2007.

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 for furniture and equipment. 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, 2008 and 2007

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.

11. Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

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 as of July 31, 2008 comprised \$10,466 for a strategic reserve initiative, \$2,160 for scholarships, and \$45,000 for the Healthy Choices Program. Contributions receivable as of July 31, 2007 comprised \$5,000 that was period restricted for support. All contributions receivable are expected to be collected within one year and are considered fully collectible. No allowance for uncollectible contributions receivable or discounting to present value have been reported in these financial statements.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2008 and 2007

NOTE D - FURNITURE AND EQUIPMENT

Furniture and equipment comprised the following as of July 31,

	<u>2008</u>	<u>2007</u>
Computer equipment	\$ 19,222	\$ 11,577
Furniture and equipment	5,212	5,212
	<u>24,434</u>	<u>16,789</u>
Accumulated depreciation	(9,242)	(5,475)
	<u>\$ 15,192</u>	<u>\$ 11,314</u>

Depreciation expense totaled \$3,767 and \$2,070 for the years ended July 31, 2008 and 2007, respectively.

NOTE E - LINE OF CREDIT

On March 6, 2008, the Organization established a line of credit promissory note for \$40,000 at 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 April, 2008, and the 1st day of each consecutive month thereafter until February 2009. On the maturity date, which is March 1, 2009, the remaining outstanding principal amount will be due and payable in one balloon payment. 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.

In December 2008, the maturity date for the line of credit was extended from March 1, 2009 to December 2009.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2008 and 2007

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

The Organization has recorded certain contributions as temporarily restricted based on the donors' intent to use the funds for specific purposes and/or use during future periods. Temporarily restricted net assets at July 31, 2008 of \$45,000 were for the Healthy Choices program. Temporarily restricted net assets of \$5,000 at July 31, 2007 were restricted by passage of time until their collection during fiscal year 2008. Restrictions for temporarily restricted net assets were satisfied as follows during the years ended July 31,

	<u>2008</u>	<u>2007</u>
Urban Roots	\$ 74,286	\$ -
Health Choices	30,000	-
Time restricted	<u>5,000</u>	<u>30,000</u>
	<u>\$ 109,286</u>	<u>\$ 30,000</u>

NOTE G - PROGRAM SERVICE EXPENSES

Program services comprised the following for the years ended July 31,

	<u>2008</u>	<u>2007</u>
No Kidding Austin	\$ 335,997	\$ 276,543
Youth Partnership for Change	166,413	178,637
No Kidding Texas	166,196	134,985
Urban Roots	151,162	27,811
Scholarship	23,650	14,987
Other Programs	<u>73,583</u>	<u>13,278</u>
	<u>\$ 917,001</u>	<u>\$ 646,241</u>

In kind expenses, primarily for class room space for the No Kidding programs, have been reported as program service expenses in these financial statements.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2008 and 2007

NOTE H - COMMITMENTS

In November 2006, the Organization executed a five year 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 period ending February 2012. The difference between the actual cash payments and the straight-line expense is recorded as deferred rent in these financial statements.

In September 2007, the Organization executed a five year lease agreement for office equipment that includes a monthly maintenance agreement.

The Organization also leases farmland with Hands of the Earth for surface use of one acre of land for the Urban Roots program. This lease runs from December 2007 through July, 2008. The lease includes an automatic renewal for twelve months unless terminated by written notice.

Future minimum lease payments at July 31, 2008 were as follows:

2009	\$	34,488
2010		32,382
2011		33,474
2012		20,898
2013		400

Total rental expense under operating leases for the years ended July 31, 2008 and 2007, was \$45,131 and \$18,835, respectively.

NOTE I - RETIREMENT PLAN

Prior to August 1, 2007, the Organization had a tax-sheltered annuity plan under section 403(b) of the Internal Revenue Code. Under this plan, employees were able to defer a portion of their salary and contribute to their individual 403(b) accounts. The Organization could also make discretionary, nondiscriminatory contributions on behalf of its employees.

Effective August 1, 2007, the Organization established the YouthLaunch 401(k) PSP (Profit Sharing Plan (the Plan) with Sterling Trust Company to replace the 403(b) plan. The Organization may make discretionary contributions to the plan. The Organization currently is making annual matching contribution of 3% for each eligible employee. Retirement plan expense for the years ended July 31, 2008 and 2007 totaled \$7,757 and \$3,469, respectively.

YouthLaunch, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

July 31, 2008 and 2007

NOTE J - RELATED PARTY TRANSACTIONS

Certain members of the Board of Directors contributed \$52,245 and \$10,670 during the years ended July 31, 2008 and 2007, 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 the net asset reserve. The matching challenge was restructured during 2008 to match dollar-for-dollar for 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. During the fiscal year ended July 31, 2008, \$15,470 of contribution revenues were recognized, which included a match pledge receivable of \$8,910 as of July 31, 2008.

The Organization has received a \$135,000 Community Investment Grant Award from United Way for the periods from January 1, 2008 through June 30, 2010. This award is conditioned upon the successful completion of United Way's fundraising efforts throughout this term. The Organization has already collected \$30,000 of this grant and has a funding letter for the additional \$45,000 for the period ending June 30, 2009. Due to the conditional nature of the July 1, 2009 to June 30, 2010 period, the remaining \$60,000 under this award has not 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.

NOTE M - CONTINGENCY

The Organization is indirectly involved in litigation between the National Organization for Women and the Department of Health and Human Services regarding the legality of grant funds. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of the outstanding claim will not have a material adverse effect on the financial position or results of operations of the Organization.