

FINANCIAL STATEMENTS
of
LITTLE LIGHTS URBAN MINISTRIES
and Independent Accountants' Report

December 31, 2008 and 2007

DAVID G. SIMMONS
Certified Public Accountant

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DAVID G. SIMMONS
Certified Public Accountant

Office: 301-604-3247
Fax: 240-524-2328
david@simmons-cpa.com

585 Main Street, Suite 243
Laurel, Maryland 20707
www.simmons-cpa.com

Independent Auditors' Report

To the Board of Directors
Little Lights Urban Ministries
Washington, DC

We have audited the accompanying statements of financial position of Little Lights Urban Ministries as of December 31, 2008 and 2007 and the related statements of activities and changes in net assets, statements of functional expenses, and statements of cash flow for the year then ended. These financial statements are the responsibility of the management of Little Lights Urban Ministries. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Little Lights Urban Ministries as of December 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

David G. Simmons, CPA
September 24, 2009

Little Lights Urban Ministries
Statements of Financial Position
As of December 31, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 195,691	\$ 149,574
Payroll escrow	7,595	0
Prepaid expenses	3,595	9,915
Other asset	4,602	0
Land	260,934	260,934
Building & improvements	583,766	580,517
Furniture & equipment	67,583	37,083
Vehicles	42,068	42,068
Accumulated depreciation	<u>(179,185)</u>	<u>(135,828)</u>
Fixed assets, net	775,166	784,774
Total assets	<u>\$ 986,649</u>	<u>\$ 944,263</u>
Liabilities and Net Assets		
Accounts payable	\$ 12,785	\$ 9,534
Payroll liabilities	7,595	5,878
Accrued expenses	15,870	10,279
Capital lease obligation	14,703	6,028
Note payable	189,600	192,826
Net assets		
Unrestricted	<u>746,096</u>	<u>719,718</u>
Total liabilities and net assets	<u>\$ 986,649</u>	<u>\$ 944,263</u>

See Independent Accountants' Report and accompanying Notes to the Financial Statements.

Little Lights Urban Ministries
Statements of Activities and Changes in Net Assets
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Change in unrestricted net assets:		
Support and revenues		
Grants	\$ 289,126	\$ 271,900
Contributions	255,904	172,619
Events	15,280	0
Interest income	2,514	2,825
Other support & revenues	<u>15,496</u>	<u>15,394</u>
Total support and revenues	578,320	462,738
Expenses and losses		
Program	415,839	285,473
Management and general	104,111	135,524
Fund-raising	<u>31,992</u>	<u>4,411</u>
Total expenses and losses	551,942	425,408
Increase in unrestricted net assets	<u>\$ 26,378</u>	<u>\$ 37,330</u>
Net assets, beginning of year	719,718	682,388
Net assets, end of year	<u>\$ 746,096</u>	<u>\$ 719,718</u>

Little Lights Urban Ministries
Statement of Functional Expenses
For the year ended December 31, 2008

	<u>Program</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Personnel				
Salaries and wages	\$ 197,081	\$ 36,497	\$ 9,732	\$ 243,310
Payroll taxes	13,826	2,561	683	17,070
Worker's compensation	2,320	430	115	2,865
Health insurance	22,964	4,253	1,134	28,351
Stipend	4,903	908	242	6,053
Training	4,962	919	245	6,126
Occupancy				
Utilities	6,734	4,489		11,223
Repairs and maintenance	4,336	6,505		10,841
Rent	21,000			21,000
Insurance	1,220	1,830		3,050
Property taxes	1,411	1,412		2,823
Interest expense	6,861	6,861		13,722
Program Costs				
Food and snacks	19,538			19,538
Program supplies	12,732			12,732
Clothing	1,919			1,919
Field trips	9,304			9,304
Events	932		10,239	11,171
Vehicle operating costs	19,948			19,948
Administration				
Telephone	6,283	1,109		7,392
Professional fees	2,015	11,232		13,247
Postage and shipping	2,203	132	2,070	4,405
Advertising	1,893	934	1,893	4,720
Insurance	3,014	1,505		4,519
Office supplies and expenses	7,803	1,561	1,040	10,404
Dues and subscriptions	774	947		1,721
Other expenses	2,042	2,495		4,537
Printing and publication	6,711		4,474	11,185
Interest expense	938	188	125	1,251
Depreciation	26,014	17,343		43,357
Gifts	4,158			4,158
Total expenses	\$ 415,839	\$ 104,111	\$ 31,992	\$ 551,942

See Independent Accountants' Report and accompanying Notes to the Financial Statements.

Little Lights Urban Ministries
Statement of Functional Expenses
For the year ended December 31, 2007

	<u>Program</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Personnel				
Salaries and wages	\$ 122,908	\$ 57,839	\$ 0	\$ 180,747
Payroll taxes	9,376	4,412		13,788
Worker's compensation	2,696	1,268		3,964
Health insurance	14,693	6,915		21,608
Stipend	4,436	2,087		6,523
Training	2,865			2,865
Occupancy				
Utilities	3,059	7,137		10,196
Repairs and maintenance	5,524	12,889		18,413
Rent	15,000	0		15,000
Insurance	916	2,136		3,052
Property taxes	848	1,980		2,828
Interest expense	4,032	9,409		13,441
Other	874	2,040		2,914
Program Costs				
Food and snacks	21,466			21,466
Program supplies	10,368			10,368
Clothing	1,796			1,796
Field trips	12,266			12,266
Events	1,361			1,361
Vehicle operating costs	17,621			17,621
Administration				
Telephone	2,952	2,951		5,903
Professional fees		7,749		7,749
Postage and shipping	242	642	2,328	3,212
Advertising		58	1,166	1,224
Insurance	433	1,730		2,163
Office supplies and expenses	7,762	1,941		9,703
Dues and subscriptions	875	1,083		1,958
Other expenses	682			682
Printing and publication	4,866	300	917	6,083
Interest expense	849	212		1,061
Depreciation	10,746	10,746		21,492
Gifts	3,961			3,961
Total expenses	\$ 285,473	\$ 135,524	\$ 4,411	\$ 425,408

See Independent Accountants' Report and accompanying Notes to the Financial Statements.

Little Lights Urban Ministries
Statements of Cash Flows
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase in net assets	\$ 26,378	37,330
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	43,357	21,492
Increase in payroll escrow	(7,595)	0
Decrease (increase) in prepaid expenses	6,320	(4,299)
Increase in other assets	(4,602)	0
Increase in accounts payable	3,251	8,404
Increase in payroll liability	1,717	4,558
Increase in accrued expenses	5,591	10,279
In-kind donation	(3,500)	(11,070)
	<u>70,917</u>	<u>66,694</u>
Net cash provided by operating activities	70,917	66,694
 Cash flows from investing activities:		
Purchase of furniture & equipment	(14,227)	(9,231)
Improvements to buildings	(3,249)	(95,925)
	<u>(17,476)</u>	<u>(105,156)</u>
Net cash used by investing activities	(17,476)	(105,156)
 Cash flows from financing activities:		
Proceeds from note payable	0	59,903
Principal payments on note payable	(3,226)	(4,646)
Principal payments on capital leases	(4,098)	(2,633)
	<u>(7,324)</u>	<u>52,624</u>
Net cash provided by financing activities	(7,324)	52,624
 Net increase in cash	<u>\$ 46,117</u>	<u>\$ 14,162</u>
 Cash, beginning of year	149,574	135,412
Cash, end of year	<u>\$ 195,691</u>	<u>\$ 149,574</u>
 Supplemental disclosures:		
Interest paid	14,793	14,502
Taxes paid	0	0
 Non-cash transactions:		
Equipment obtained through capital lease	16,273	0

Little Lights Urban Ministries Notes to the Financial Statements

Note 1 – Nature of Operations

Little Lights Urban Ministries (the “Ministry”) is a nonprofit organization founded in 1995, and is incorporated in the District of Columbia. Its mission is to empower underserved youth and families in Washington, DC with the love of Christ through programs such as academic tutoring, extracurricular activities, discipleship training, summer camp, special events, and more. The ministry is located in Southeast Washington, DC and primarily serves the nearby Potomac Gardens public housing community.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues have been recorded when earned, and expenses when incurred.

Financial Statement Presentation

These financial statements are presented in accordance with Statement of Financial Accounting Standard No. 117, *Financial Statements of Not-for-Profit Organizations*. That standard requires the Ministry report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets (no donor-imposed restrictions as to time or purpose), temporarily restricted net assets (donor-imposed restrictions which expire with the passage of time or when put to a particular use), and permanently restricted net assets (donor-imposed restrictions which do not expire with the passage of time or when put to a particular use). Temporarily restricted contributions which restrictions are satisfied in the year of donation, are reflected as unrestricted contributions in the financial statements by the Ministry. This includes grants which are required to be used toward the stated mission of the Ministry. The standard also requires that expenses be aggregated by their functional classification. The Ministry has therefore allocated their costs between program, general and administrative, and fund-raising functions.

Revenue Recognition

The Ministry follows the standards for recognition of contributions received as outlined in Statement of Financial Accounting Standard No. 116, *Accounting for Contributions Received and Contributions Made*. Pledges are not typically made by donors, so monetary donations are recorded as revenue when received, and material in-kind donations are recorded as revenue at fair market value when received. Over 100 individuals volunteer their time in support of the Ministry’s activities, but accounting standards only permit the recognition of these services as revenue if they: a) create or

enhance a nonfinancial asset, or b) require specialized skills and would typically need to be purchased if not donated. In general, the donated services received do not meet this criteria.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Depreciation

Depreciation is computed using the straight-line method over the assets' expected useful lives. Building and related improvements are estimated at 20 years, furniture at 7 years, vehicles at 5-7 years, and computers and electronic equipment at 3-4 years. The Ministry also records amortization of equipment financed through capital leases as depreciation expense.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Ministry considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Compensated Absences

The Ministry has not accrued compensated absences since the amount cannot be reasonably estimated.

Income Tax

The Ministry is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, and therefore no provision has been made for income taxes.

Note 3 – Note payable

Note payable consists of a promissory note payable to a bank in monthly installments of \$1,442, and which is secured by the Ministry House, a small apartment building which houses certain members of the staff. Interest is charged at an annual fixed rate of 7.34%, until it is adjusted to a new fixed rate on March 22, 2012 equal to the monthly average of the then prevailing five-year Treasury security rate plus 2.75%. The note has a maturity date of March 22, 2017.

Note 4 – Related Parties

The Ministry is a sponsoring organization in the AmeriCorps VISTA program established by the United States government. The program allows participants to serve

full-time for a year at a nonprofit organization or local government agency as a service to the community. Sponsoring organizations direct and supervise participant efforts, but AmeriCorps VISTA covers the cost of the participant by directly providing them a modest living allowance, healthcare, and other benefits. However, in the middle of 2008 AmeriCorps requested the Ministry to share in the cost of support of its VISTA members, which amounted to \$12,030 for the year. The Ministry has been approved for and allocated approximately 16 AmeriCorps VISTA members, approximately six of which work in its program, and the remainder of which work at other non-profits in the area.

Deputy Director Mary Park also serves as an AmeriCorps VISTA Supervisor, which means that she has responsibilities to oversee the progress of AmeriCorps VISTA members under her purview, some of which are at the Ministry and some of which are at other charitable outreaches in the area. Part of her salary is supported by an approximately \$25,000 annually renewable grant from AmeriCorps on a September-to-September basis. The grant was not renewed by AmeriCorps for the 2008-2009 year.

Many of the after-school activities take place in a neighboring church under a lease which was negotiated at a below-market rate. See Note 5 for further discussion of the lease terms.

A separate charitable organization uses one office room in the Ministry's headquarters building, and reimburses for occupancy costs at a rate of \$400 per month.

One of the members of the Board of Directors provides free dental care to employees of the Ministry.

The Ministry owns a small apartment building which is used to provide housing to certain staff, interns, and AmeriCorps VISTA members free of charge.

Note 5 – Leases

The Ministry leases space from a neighboring church at a below-market rate to house various after-school activities. Per the terms of the lease agreement, the lease rate was at \$1,068 per month through May 2007, and \$1,417 from June to August 2007. At that time the lease went on a month-to-month basis until a new one-year lease agreement was executed in May 2008 at a rate of \$2,000 per month.

In December 2008, the Ministry entered a license agreement with the District of Columbia Housing Authority for the use of two apartment units in the Potomac Gardens community which it serves. The license provides for free use of the apartment space for a term of one year.

For 2007, furniture and equipment includes \$14,600 for a copier and printer obtained

under a capital leases, which have accumulated amortization at December 31, 2007 of \$9,825. The copier lease provides for monthly installments of \$289 through its expiration on October 2008, resulting in \$578 in interest for 2008. The printer lease is built into purchases of consumables, but the amount attributable to the printer itself has been imputed at \$19 per month, ending in December 2008. For 2008, furniture and equipment includes \$16,273 for a new copier and printer obtained under capital leases. The copier provides for monthly installments of \$314 through its expiration in May 2013. The printer lease is built into purchases of consumables, but the amount attributable to the printer itself has been imputed at \$19 per month, ending in December October 2011. A reconciliation of the remaining minimum lease payments to the capital lease obligations is provided below:

2009	\$ 3,994
2010	3,994
2011	3,956
2012	3,768
2013	<u>1,570</u>
Total	17,282
Imputed interest	<u>(2,579)</u>
Capital lease obligation	\$ 14,703

Note 6 – Commitments and Contingencies

The headquarter building of the Ministry was donated in September 2005 through an agreement which contained terms in the event of its sale. Those terms specify that the sale proceeds would be divided, with the Ministry receiving the lesser of 25% or \$100,000 on a sale price up to \$550,000. Any sale proceeds over \$550,000 would belong solely to the Ministry. In addition, the Ministry agreed not to encumber the property by loan or otherwise, and to extend an invitation of four positions on the Board of Directors to the donating organizations until such a time as the building is sold.

Note 7 – Concentrations

Of the Ministry’s approximately 17 full-time and part-time paid staff, approximately 6 are compensated directly through the AmeriCorps VISTA program. See further discussion of the AmeriCorps program under Note 4 above.

The Ministry receives most of its support from grants, the largest of which is the DC Children and Youth Investment Trust at \$108,250 for 2008, and \$100,000 for the 2007 calendar year. The next largest contributor is a foundation, which gave \$41,000 in 2008, followed by four other foundations which each contribute between \$20,000 to \$25,000 annually.

The Ministry's principal area of service is to the Potomac Gardens public housing community.

Note 8 – Reclassifications

Certain amounts for 2007 have been reclassified to conform to the presentation for 2008. These principally relate to the classification of monies from volunteer groups to cover housing costs while onsite assisting with the spring break or summer programs as other support and revenues.

DAVID G. SIMMONS
Certified Public Accountant