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

December 31, 2009

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## **Independent Auditors' Report**

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

We have audited the accompanying statement of financial position of Little Lights Urban Ministries as of December 31, 2009 and the related statements 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 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 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 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.

As described in Note 7, these financial statements have been revised by management to reflect information existing at the original report date of October 18, 2010 but not contained therein. See the aforementioned note for further discussion.

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, 2009, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

David G. Simmons, CPA  
November 8, 2010

**Little Lights Urban Ministries  
Statement of Financial Position  
As of December 31, 2009**

	<u><b>2009</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 189,141
Prepaid expenses	1,769
Grants receivable	36,390
Land	260,934
Building and improvements	583,766
Furniture and equipment	93,208
Vehicles	42,068
Accumulated depreciation	<u>(225,552)</u>
Fixed assets, net	<u>754,424</u>
<b>Total assets</b>	<b><u><u>\$ 981,724</u></u></b>
<b>Liabilities and Net Assets</b>	
Accounts payable	\$ 10,798
Payroll liabilities	4,488
Accrued expenses	14,430
Capital lease obligation	12,205
Note payable	177,429
Net assets	
Unrestricted	<u>762,374</u>
<b>Total liabilities and net assets</b>	<b><u><u>\$ 981,724</u></u></b>

**Little Lights Urban Ministries**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended December 31, 2009**

	<b>2009</b>
<b>Change in unrestricted net assets:</b>	
Support and revenues	
Contributions	\$ 293,706
Grants	277,070
Events	18,189
Interest income	1,719
Other support and revenues	8,915
Total support and revenues	599,599
Expenses	
Program	454,723
Management and general	77,027
Fundraising	51,571
Total expenses	583,321
<b>Increase in unrestricted net assets</b>	<b>\$ 16,278</b>
Net assets, beginning of year	746,096
<b>Net assets, end of year</b>	<b>\$ 762,374</b>

**Little Lights Urban Ministries**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2009**

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
<b>Personnel</b>				
Salaries and wages	\$ 165,981	\$ 13,143	\$ 10,204	\$ 189,328
AmeriCorps VISTA workers	31,166	13,357		44,523
Payroll taxes	12,618	999	776	14,393
Worker's compensation	834	113	82	1,029
Independent contractors	8,486		7,281	15,767
Benefits	30,234	4,096	2,973	37,303
<b>Facilities and equipment</b>				
Utilities	9,654	311	415	10,380
Repairs and maintenance	14,137	456	608	15,201
Rent	31,593		9,093	40,686
Insurance	6,100	197	262	6,559
Property taxes	1,946	86	118	2,150
Gas	2,836	149		2,985
Interest expense	13,341	1,028	776	15,145
Depreciation	41,668	4,735	947	47,350
<b>Operations</b>				
Program food	11,112			11,112
Program supplies	16,805			16,805
Clothing	2,556			2,556
Travel, meals, and training	8,739	3,746		12,485
Other supplies	2,247	12,731		14,978
Telephone and telecom	7,737	1,365		9,102
Postage and shipping	3,053	195	3,248	6,496
Printing and publication	11,059	1,229	12,288	24,576
Gifts and assistance	15,714			15,714
Other	95	1,808		1,903
<b>Contract services and entity costs</b>				
Professional and service fees		13,674	2,500	16,174
Insurance	3,290	1,505		4,795
Dues and subscriptions	233	284		517
Other expenses	1,489	1,820		3,309
<b>Total expenses</b>	<b>\$ 454,723</b>	<b>\$ 77,027</b>	<b>\$ 51,571</b>	<b>\$ 583,321</b>

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

**Little Lights Urban Ministries**  
**Statement of Cash Flows**  
**For the year ended December 31, 2009**

	<b>2009</b>
<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 16,278
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	47,350
Decrease in payroll escrow	7,595
Decrease in prepaid expenses	1,826
Increase in grants receivable	(36,390)
Decrease in other assets	4,602
Decrease in accounts payable	(1,987)
Decrease in payroll liability	(3,107)
Decrease in accrued expenses	(1,440)
Donated fixed asset	(1,140)
	<b>33,587</b>
 <b>Cash flows from investing activities:</b>	
Purchase of furniture and equipment	(24,868)
<b>Net cash used by investing activities</b>	(24,868)
 <b>Cash flows from financing activities:</b>	
Principal payments on note payable	(12,171)
Principal payments on capital leases	(3,098)
<b>Net cash used by financing activities</b>	(15,269)
 <b>Net decrease in cash</b>	<b>\$ (6,550)</b>
 Cash, beginning of year	195,691
<b>Cash, end of year</b>	<b>\$ 189,141</b>
 Supplemental disclosures:	
Interest paid	15,145
Taxes paid	0
 Non-cash transactions:	
Equipment obtained through capital lease	600

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

## **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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 and related sections, *Presentation of Financial Statements*. Those standards require the Ministry to 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 standards also require that expenses be aggregated by their functional classification. The Ministry has therefore allocated their costs between program, management and general, and fundraising functions.

#### Revenue Recognition

The Ministry follows the standards for recognition of contributions received as outlined in FASB ASC 958-605-25, *Not-for-profit Entities Revenue Recognition*. 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. The only portion of donated services which meets these criteria are dental services, described further in Note 4. The entity also receives and recognizes contributed use of property, as described in Note 5.

#### Receivables

Receivables are evaluated for collectibility and reduced to their estimated net realizable value. Management has determined no allowance is necessary for 2009.

#### 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 due 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, with scheduled principal repayments as follows:

2010	\$ 17,308
2011	17,308
2012	17,308
2013	17,308
2014	17,308
2015 and following	<u>90,889</u>
Total	\$ 177,429

**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, due to changes in the program, during 2009 the Ministry was requested to share in the cost of support of its VISTA members which totaled \$20,039.

Many of the after-school activities took place in a neighboring church under a lease which was negotiated at a below-market rate. The lease expired in May 2009 and was not renewed in 2009. Instead, the Ministry received free use of two apartments as described further in Note 5.

One of the members of the Board of Directors provides free dental care to employees of the Ministry. These services were valued at an estimate of \$3,585 for 2009, and reflected as contribution revenue and benefits expense in accordance with accounting standards.

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**

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, which is annually renewable at the authority’s option. The value of the use of these units has been estimated at \$22,176 for 2009, which has been reflected as

contribution revenue and rent expense in accordance with accounting standards.

Furniture and equipment includes \$16,873 for a copier and two printers obtained under capital leases, which have accumulated amortization at December 31, 2009 of \$5,002. The copier lease provides for monthly installments of \$314 through its expiration May 2013, resulting in \$963 in interest for 2009. The printer leases are built into purchases of consumables, but the amount attributable to the printers has been imputed at \$19 each per month, ending in October 2011 and May 2012. A reconciliation of the remaining minimum lease payments to the capital lease obligations is provided below:

2010	\$ 4,219
2011	4,182
2012	3,862
2013	<u>1,570</u>
Total	13,833
Imputed interest	<u>(1,628)</u>
Capital lease obligation	\$ 12,205

#### **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 – Subsequent Discovery of Facts**

These financials were issued with an original report date of October 18, 2010, but were subsequently revised for an updated allocation of functional expenses based on information existing at the report date but not reflected in the original statements. Management recognized the allocation between program, management and general, and fundraising with respect to certain staff member's compensation and the use of facilities should be altered in order to more accurately represent the underlying facts and circumstances. Accordingly, these financial statements reflect those revisions.

**Note 8 – 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's principal area of service is to the Potomac Gardens public housing community.

Of the \$277,070 in grants received by the Ministry, the largest is from the DC Children and Youth Investment Trust which totaled \$58,700 in 2009. The remaining grants are generally in amounts \$25,000 or less.

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