

HOLLY STREET CORPORATION

Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)



Hill, Harper & Associates
Certified Public Accountants

Independent Auditors' Report

Terry A. Hill
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**The Board of Directors
Holly Street Corporation**

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We have audited the accompanying statements of financial position of Holly Street Corporation as of December 31, 2004 and 2003, and the related statements of activities and changes in net assets 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 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 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 Holly Street Corporation as of December 31, 2004 and 2003, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hill, Harper & Associates

June 23, 2005

HOLLY STREET CORPORATION

Statements of Financial Position

December 31, 2004 and 2003

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Cash:		
Cash and cash equivalents	\$ 93,916	10,292
Total cash	93,916	10,292
Accounts receivable:		
Accounts receivable	14,359	16,005
Grants receivable	13,749	14,497
Employee receivables	3,288	855
Gift certificates	85	35
Total accounts receivable	31,481	31,392
Total current assets	125,397	41,684
Property and equipment:		
Land	77,115	77,115
Buildings and improvements	482,182	439,379
Furniture and fixtures	64,718	57,703
Automobiles	20,800	20,800
	644,815	594,997
Less accumulated depreciation	(161,174)	(145,279)
Net property and equipment	483,641	449,718
Loan costs, net of accumulated amortization of \$1,210 in 2004 and \$550 in 2003	2,090	2,750
Total assets	\$ 611,128	494,152
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 8,087	13,441
Accrued payroll and benefits	26,080	19,649
Current portion of long term debt	10,876	10,596
Total current liabilities	45,043	43,686
Long term debt, net of current portion	341,113	350,467
Total liabilities	386,156	394,153
Net assets:		
Unrestricted net assets	160,187	99,999
Temporarily Restricted net assets	64,785	—
Total net assets	224,972	99,999
Total liabilities and net assets	\$ 611,128	494,152

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Activities and Changes in Net Assets

For the years ended December 31, 2004 and 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2004</u>	<u>Total 2003</u>
Public support and revenue:				
Program service revenue	\$ 588,450	—	588,450	551,891
Governmental grant revenue	170,105	—	170,105	150,383
Private grants	—	71,645	71,645	—
United Way contributions	37,562	—	37,562	40,996
Interest	86	—	86	19
Special events	21,632	—	21,632	13,629
Contributions	1,050	—	1,050	649
Total support and revenue	818,885	71,645	890,530	757,567
Net assets released from restrictions	6,860	(6,860)	—	—
	<u>825,745</u>	<u>64,785</u>	<u>890,530 ✓</u>	<u>757,567</u>
Expenses:				
Program services:				
Salaries and benefits	429,215	—	429,215	409,621
Payroll service fees	2,353	—	2,353	2,073
Teacher training	4,727	—	4,727	2,349
Lessons and field trips	10,085	—	10,085	11,838
Food service	43,173	—	43,173	41,200
Accounting fees	8,763	—	8,763	4,775
Vehicle expense	3,096	—	3,096	2,795
Depreciation	15,895	—	15,895	13,608
Amortization	660	—	660	4,705
Equipment rent	2,400	—	2,400	1,487
Occupancy	17,746	—	17,746	18,788
Security	1,247	—	1,247	1,247
Repairs and maintenance	8,951	—	8,951	9,829
Contract labor	17,809	—	17,809	13,563
Insurance	14,967	—	14,967	10,195
Supplies	9,950	—	9,950	9,852
Curriculum supplies	5,590	—	5,590	7,695
Telephone	4,374	—	4,374	5,899
Interest	22,220	—	22,220	19,660
Miscellaneous	11,418	—	11,418	11,142
Total program services	634,639	—	634,639	602,321
Supporting services:				
General and administrative:				
Salaries and benefits	125,815	—	125,815	117,500
Fund raising	5,103	—	5,103	3,093
Total supporting services	130,918	—	130,918	120,593
Total expenses	765,557	—	765,557 ✓	722,914
Increase in net assets	60,188	64,785	124,973	34,653
Net assets at beginning of year	99,999	—	99,999	65,346
Net assets at end of year	\$ 160,187	64,785	224,972	99,999

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Cash Flows

For the years ended December 31, 2004 and 2003

<u>Cash Flows from Operating Activities</u>	<u>2004</u>	<u>2003</u>
Cash received from:		
Clients and public support	\$ 728,416	612,454
Federal, state, and local governments	170,853	152,372
Interest income	86	19
Cash paid for:		
Employees and vendors	(734,619)	(681,298)
Interest	(22,220)	(19,660)
Net operating activities	<u>142,516</u>	<u>63,887</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of capital assets	<u>(49,818)</u>	<u>(52,916)</u>
Net investing activities	<u>(49,818)</u>	<u>(52,916)</u>
<u>Cash Flows from Financing Activities</u>		
Proceeds from long term debt	—	365,358
Repayments of long term debt	<u>(9,074)</u>	<u>(372,926)</u>
Net financing activities	<u>(9,074)</u>	<u>(7,568)</u>
Net increase in cash and cash equivalents	83,624	3,403
Cash and cash equivalents at beginning of year	<u>10,292</u>	<u>6,889</u>
Cash and cash equivalents at end of year	\$ <u><u>93,916</u></u>	<u><u>10,292</u></u>
<u>Reconciliation of increase in net assets to cash flows from operating activities</u>		
Increase in net assets	\$ 124,973	34,653
Depreciation and amortization	16,555	18,313
(Increase) decrease in operating assets:		
Accounts receivables	1,646	(685)
Grants receivable	748	1,989
Employee receivable	(2,433)	(694)
Gift certificates	(50)	405
Increase (decrease) in operating liabilities:		
Accounts payable	(5,354)	3,932
Accrued payroll and benefits	<u>6,431</u>	<u>5,974</u>
Net operating activities	\$ <u><u>142,516</u></u>	<u><u>63,887</u></u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Notes to Financial Statements

December 31, 2004 and 2003

General

Holly Street Corporation, operating as Holly Street Day Care (the Day Care), is a private non-profit corporation of the State of Tennessee. The Day Care was founded in 1983 and was incorporated in 1990 for the purpose of providing day care services for children in an underprivileged community, which makes it possible for the parents to be gainfully employed. The Day Care is supported primarily through program service fees. In addition, the Day Care receives a portion of its revenues from government agencies.

(1) Summary of Significant Accounting Policies

Basis of Presentation

The Day Care adheres to the provisions of Statement of Financial Accounting Standards (SFAS) No 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Day Care 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, if any. In addition, the Day Care is required to present a statement of cash flows.

The Day Care also adheres to SFAS No. 116, "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and / or nature of any donor restrictions.

Expiration of Donor – Imposed Restrictions

The expiration of a donor – imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Accrual Basis

The financial statements of the Day Care have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Loan Costs

Loan costs are being amortization over the life of the loan on a straight line basis.

HOLLY STREET CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the designated programs.

Income Taxes

The Day Care is exempt from Federal and State income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes have been made.

Property and Equipment

Expenditures for land, building and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight – line method. The estimated useful lives of fixed assets in service are as follows:

Furniture and fixtures	5 years
Automobiles	5 years
Building	39 years

Expenditures for maintenance and repairs are charged to operations as incurred. Expenditures for furniture and equipment in excess of \$200 are capitalized. The estimated fair market value of donated fixed assets are similarly capitalized when received.

Bad Debts

The Day Care considers accounts receivable to be fully collectable; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Day Care considers all cash funds, cash bank accounts and highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

Contributed Services

Contributed services, if applicable, are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No contributed services are reflected in these financial statements.

HOLLY STREET CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of these instruments. Long term debt approximates fair value due to the rate of interest approximating current rates charged for loans with similar maturities.

Compensated Absences

Employees of the Day Care are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Day Care's policy is to recognize the cost of compensated absences when actually paid to employees.

(2) Long Term Debt 2004 2003

Long term debt consists of the following:

Note payable to a financial institution due in monthly installments of \$2,594, principal and interest, at 5.75% through March 2008 at which time a balloon payment of \$316,772 is due.	\$	351,989	361,063
		351,989	361,063
Less current portion		10,876	10,596
	\$	<u>341,113</u>	<u>350,467</u>

Maturities of long term debt are as follows: \$10,876 in 2005; \$11,528 in 2006; \$12,220 in 2007 and \$317,365 in 2008.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

Contributions for construction of school age building	\$	45,425
Contributions for tuition subsidies		19,360
	\$	<u>64,785</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes by expending funds received for the restricted purpose.

Construction of school age building	\$	575
Purchase of equipment		5,535
Operations		750
	\$	<u>6,860</u>