

HOLLY STREET CORPORATION

Financial Statements

December 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, 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

September 21, 2009

HOLLY STREET CORPORATION

Statements of Financial Position

December 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 9,231	30,109
Accounts receivable:		
Accounts receivable	49,427	45,208
Grants receivable	7,443	8,593
Employee receivables	3,475	3,407
Gift certificates	640	585
Total accounts receivable	<u>60,985</u>	<u>57,793</u>
Total current assets	<u>70,216</u>	<u>87,902</u>
Property and equipment:		
Land	77,115	77,115
Buildings and improvements	573,810	573,923
Furniture and fixtures	74,193	73,448
Automobiles	66,950	66,950
	<u>792,068</u>	<u>791,436</u>
Less accumulated depreciation	<u>(263,384)</u>	<u>(233,576)</u>
Net property and equipment	<u>528,684</u>	<u>557,860</u>
Loan costs, net of accumulated amortization of \$3,300 in 2008 and \$3,190 in 2007	<u>-</u>	<u>110</u>
Total assets	<u><u>\$ 598,900</u></u>	<u><u>645,872</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 12,298	12,959
Accrued payroll and benefits	8,160	28,246
Current portion of long term debt	18,279	321,352
Total current liabilities	<u>38,737</u>	<u>362,557</u>
Long term debt, net of current portion	<u>312,724</u>	<u>14,454</u>
Total liabilities	<u>351,461</u>	<u>377,011</u>
Net assets:		
Unrestricted net assets	247,439	268,861
Temporarily restricted net assets	-	-
Total net assets	<u>247,439</u>	<u>268,861</u>
Total liabilities and net assets	<u><u>\$ 598,900</u></u>	<u><u>645,872</u></u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Activities and Changes in Net Assets

For the years ended December 31, 2008 and 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
Public support and revenue:				
Program service revenue	\$ 799,923	-	799,923	729,678
Governmental grant revenue	90,460	-	90,460	101,497
Private grants	1,192	-	1,192	12,026
United Way contributions	19,891	-	19,891	36,607
Interest	8	-	8	216
Special events	35,820	-	35,820	30,140
Contributions	170	-	170	2,921
Total support and revenue	<u>947,464</u>	<u>-</u>	<u>947,464</u>	<u>913,085</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>947,464</u>	<u>-</u>	<u>947,464</u>	<u>913,085</u>
Expenses:				
Program services:				
Salaries and benefits	593,198	-	593,198	506,456
Payroll service fees	3,392	-	3,392	1,977
Teacher training	5,880	-	5,880	2,437
Lessons and field trips	17,047	-	17,047	14,546
Food service	49,109	-	49,109	46,061
Accounting fees	7,375	-	7,375	8,002
Vehicle expense	6,096	-	6,096	3,590
Depreciation	29,808	-	29,808	30,488
Amortization	110	-	110	660
Equipment rent	2,880	-	2,880	2,431
Occupancy	42,704	-	42,704	44,610
Security	641	-	641	1,790
Repairs and maintenance	17,791	-	17,791	12,336
Contract labor	2,558	-	2,558	3,749
Insurance	27,398	-	27,398	21,842
Bad debts	1,850	-	1,850	7,748
Supplies	12,301	-	12,301	12,889
Curriculum supplies	2,540	-	2,540	8,285
Telephone	5,013	-	5,013	2,915
Interest	20,709	-	20,709	20,594
Miscellaneous	7,232	-	7,232	8,356
Total program services	<u>855,632</u>	<u>-</u>	<u>855,632</u>	<u>761,762</u>
Supporting services:				
General and administrative:				
Salaries and benefits	99,532	-	99,532	131,098
Fund raising	13,722	-	13,722	11,075
Total supporting services	<u>113,254</u>	<u>-</u>	<u>113,254</u>	<u>142,173</u>
Total expenses	<u>968,886</u>	<u>-</u>	<u>968,886</u>	<u>903,935</u>
Increase (decrease) in net assets	(21,422)	-	(21,422)	9,150
Net assets at beginning of year	<u>268,861</u>	<u>-</u>	<u>268,861</u>	<u>259,711</u>
Net assets at end of year	<u>\$ 247,439</u>	<u>-</u>	<u>247,439</u>	<u>268,861</u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

<u>Cash Flows from Operating Activities</u>	<u>2008</u>	<u>2007</u>
Cash received from:		
Clients and public support	\$ 832,691	804,089
Federal, state, and local governments	91,610	101,035
Interest income	8	216
Cash paid for:		
Employees and vendors	(919,043)	(854,428)
Interest	(20,709)	(20,594)
Net operating activities	<u>(15,443)</u>	<u>30,318</u>
 <u>Cash Flows from Investing Activities</u>		
Purchase of capital assets	<u>(632)</u>	<u>(56,054)</u>
Net investing activities	<u>(632)</u>	<u>(56,054)</u>
 <u>Cash Flows from Financing Activities</u>		
Proceeds from long term debt	325,000	22,000
Repayments of long term debt	(329,803)	(15,403)
Net financing activities	<u>(4,803)</u>	<u>6,597</u>
 Net decrease in cash and cash equivalents	(20,878)	(19,139)
Cash and cash equivalents at beginning of year	<u>30,109</u>	<u>49,248</u>
Cash and cash equivalents at end of year	\$ <u>9,231</u>	<u>30,109</u>
 <u>Reconciliation of increase in net assets to cash flows from operating activities</u>		
Increase (decrease) in net assets	\$ (21,422)	9,150
Depreciation and amortization	29,918	31,148
(Increase) decrease in operating assets:		
Accounts receivable	(4,219)	(5,525)
Grants receivable	1,150	(462)
Employee receivable	(68)	(1,811)
Gift certificates	(55)	40
Decrease in operating liabilities:		
Accounts payable	(661)	(464)
Accrued payroll and benefits	(20,086)	(1,758)
Net operating activities	\$ <u>(15,443)</u>	<u>30,318</u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Notes to Financial Statements

December 31, 2008 and 2007

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.

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.

Loan Costs

Loan costs are being amortized 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

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 \$500 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 Statements 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.

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.

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.

HOLLY STREET CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Financial Statement Presentation

Certain reclassifications may have been made to the prior year figures in order to conform to current year presentation. These reclassifications, if any, have no effect on reported net assets.

(2) Concentration of Credit Risk

The Day Care serves children in Nashville, Tennessee metropolitan area. Services for day care provided for children are billed on an unsecured basis. The Day Care has an accounting risk of loss to the extent of unsecured accounts receivable in the amount of \$49,427.

(3) Long Term Debt

	<u>2008</u>	<u>2007</u>
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Long term debt consists of the following:

Note payable to a financial institution due in monthly installments of \$438, principal and interest, at 7.1% through February 2012. This note is secured by a bus.	\$ 14,467	18,520
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Note payable to a financial institution due in monthly installments of \$2,594, principal and interest, at 5.75% through March 2008. This note was refinanced during the year.	-	317,286
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Note payable to a financial institution due in monthly installments of \$2,803 principal and interest, at 6.25% through May 2023. This note is secured by a deed of trust on the land and building.	316,536	-
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	331,003	335,806
Less current portion	18,279	321,352
	<u>\$ 312,724</u>	<u>14,454</u>

Maturities of long term debt are as follows: \$18,279 in 2009; \$19,510 in 2010; \$20,825 in 2010; \$17,196 in 2012; \$17,919 in 2013 and \$237,274 thereafter.