

**HOLLY STREET CORPORATION**

**Financial Statements**

**December 31, 2006 and 2005**

**(With Independent Auditors' Report Thereon)**



Hill, Harper & Associates  
Certified Public Accountants

## Independent Auditors' Report

Terry A. Hill  
Ernest R. Harper

**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, 2006 and 2005, 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, 2006 and 2005, 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 20, 2007

# HOLLY STREET CORPORATION

## Statements of Financial Position

December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
<b>Cash:</b>		
Cash and cash equivalents	\$ 49,248	59,505
<b>Accounts receivable:</b>		
Accounts receivable	39,683	30,554
Grants receivable	8,131	8,735
Employee receivables	1,596	2,534
Gift certificates	625	85
Total accounts receivable	50,035	41,908
Total current assets	99,283	101,413
<b>Property and equipment:</b>		
Land	77,115	77,115
Buildings and improvements	566,208	551,291
Furniture and fixtures	71,800	69,804
Automobiles	20,800	20,800
	735,923	719,010
Less accumulated depreciation	(203,629)	(180,045)
Net property and equipment	532,294	538,965
Loan costs, net of accumulated amortization of \$2,530 in 2006 and \$1,870 in 2005	770	1,430
Total assets	\$ 632,347	641,808
<u>Liabilities and Net Assets</u>		
<b>Current liabilities:</b>		
Accounts payable	\$ 13,423	10,483
Accrued payroll and benefits	30,004	30,762
Current portion of long term debt	12,220	11,528
Total current liabilities	55,647	52,773
Long term debt, net of current portion	316,989	329,559
Total liabilities	372,636	382,332
<b>Net assets:</b>		
Unrestricted net assets	249,711	256,115
Temporarily restricted net assets	10,000	3,361
Total net assets	259,711	259,476
Total liabilities and net assets	\$ 632,347	641,808

See accompanying notes to financial statements.

# HOLLY STREET CORPORATION

## Statements of Activities and Changes in Net Assets

For the years ended December 31, 2006 and 2005

	Unrestricted	Temporarily Restricted	Total 2006	Total 2005
<b>Public support and revenue:</b>				
Program service revenue	\$ 692,783	—	692,783	629,067
Governmental grant revenue	118,386	—	118,386	125,968
Private grants	—	10,000	10,000	20,567
United Way contributions	31,898	—	31,898	31,953
Interest	325	—	325	417
Special events	25,534	—	25,534	23,833
Contributions	5,300	—	5,300	1,330
<b>Total support and revenue</b>	<b>874,226</b>	<b>10,000</b>	<b>884,226</b>	<b>833,135</b>
<b>Net assets released from restrictions</b>	<b>3,361</b>	<b>(3,361)</b>	<b>—</b>	<b>—</b>
	<b>877,587</b>	<b>6,639</b>	<b>884,226</b>	<b>833,135</b>
<b>Expenses:</b>				
<b>Program services:</b>				
Salaries and benefits	578,343	—	578,343	429,853
Payroll service fees	2,389	—	2,389	2,249
Teacher training	2,792	—	2,792	2,753
Lessons and field trips	11,837	—	11,837	12,373
Food service	51,883	—	51,883	42,535
Accounting fees	8,214	—	8,214	6,719
Vehicle expense	2,264	—	2,264	2,855
Depreciation	23,043	—	23,043	18,870
Amortization	660	—	660	660
Equipment rent	2,734	—	2,734	3,212
Occupancy	40,534	—	40,534	27,250
Security	1,246	—	1,246	1,807
Repairs and maintenance	13,358	—	13,358	10,860
Contract labor	2,286	—	2,286	17,988
Insurance	15,287	—	15,287	19,233
Supplies	14,553	—	14,553	15,566
Curriculum supplies	6,765	—	6,765	7,571
Telephone	3,573	—	3,573	4,044
Interest	19,433	—	19,433	20,908
Miscellaneous	11,439	—	11,439	14,187
<b>Total program services</b>	<b>812,633</b>	<b>—</b>	<b>812,633</b>	<b>661,493</b>
<b>Supporting services:</b>				
General and administrative:				
Salaries and benefits	64,843	—	64,843	132,165
Fund raising	6,515	—	6,515	4,973
<b>Total supporting services</b>	<b>71,358</b>	<b>—</b>	<b>71,358</b>	<b>137,138</b>
<b>Total expenses</b>	<b>883,991</b>	<b>—</b>	<b>883,991</b>	<b>798,631</b>
<b>Increase (decrease) in net assets</b>	<b>(6,404)</b>	<b>6,639</b>	<b>235</b>	<b>34,504</b>
<b>Net assets at beginning of year</b>	<b>256,115</b>	<b>3,361</b>	<b>259,476</b>	<b>224,972</b>
<b>Net assets at end of year</b>	<b>\$ 249,711</b>	<b>10,000</b>	<b>259,711</b>	<b>259,476</b>

See accompanying notes to financial statements.



# HOLLY STREET CORPORATION

## Statements of Cash Flows

For the years ended December 31, 2006 and 2005

<u>Cash Flows from Operating Activities</u>	<u>2006</u>	<u>2005</u>
<b>Cash received from:</b>		
Clients and public support	\$ 755,629	717,056
Federal, state, and local governments	118,990	109,163
Interest income	325	417
<b>Cash paid for:</b>		
Employees and vendors	(837,517)	(755,043)
Interest	(19,433)	(20,908)
Net operating activities	<u>17,994</u>	<u>50,685</u>
<u><b>Cash Flows from Investing Activities</b></u>		
Purchase of capital assets	<u>(16,373)</u>	<u>(74,194)</u>
Net investing activities	<u>(16,373)</u>	<u>(74,194)</u>
<u><b>Cash Flows from Financing Activities</b></u>		
Repayments of long term debt	<u>(11,878)</u>	<u>(10,902)</u>
Net financing activities	<u>(11,878)</u>	<u>(10,902)</u>
Net decrease in cash and cash equivalents	(10,257)	(34,411)
Cash and cash equivalents at beginning of year	<u>59,505</u>	<u>93,916</u>
Cash and cash equivalents at end of year	\$ <u><u>49,248</u></u>	<u><u>59,505</u></u>
<u><b>Reconciliation of increase in net assets to cash flows from operating activities</b></u>		
Increase in net assets	\$ 235	34,504
Depreciation and amortization	23,703	19,530
(Increase) decrease in operating assets:		
Accounts receivable	(9,129)	5,624
Grants receivable	604	(16,805)
Employee receivable	938	754
Gift certificates	(540)	—
Increase (decrease) in operating liabilities:		
Accounts payable	2,940	2,396
Accrued payroll and benefits	(757)	4,682
Net operating activities	\$ <u><u>17,994</u></u>	<u><u>50,685</u></u>

See accompanying notes to financial statements.

# HOLLY STREET CORPORATION

## Notes to Financial Statements

December 31, 2006 and 2005

### 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 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.



# 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 2006 2005

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. This note is secured by a deed of trust on the land and building.

	\$	<u>329,209</u>	<u>341,087</u>
		329,209	341,087
Less current portion		<u>12,220</u>	<u>11,528</u>
	\$	<u><u>316,989</u></u>	<u><u>329,559</u></u>

Maturities of long term debt are as follows: \$12,220 in 2007 and \$316,989 in 2008.

### (3) Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

Grant for purchase of bus	\$ <u>10,000</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes by expending funds received for the restricted purpose.

Tuition subsidies	\$ <u>3,361</u>
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