

**HOLLY STREET CORPORATION**

**Financial Statements**

**December 31, 2005 and 2004**

**(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, 2005 and 2004, 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, 2005 and 2004, 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, 2006**

# HOLLY STREET CORPORATION

## Statements of Financial Position

December 31, 2005 and 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
<b>Cash:</b>		
Cash and cash equivalents	\$ 59,505	93,916
Total cash	<u>59,505</u>	<u>93,916</u>
<b>Accounts receivable:</b>		
Accounts receivable	8,735	14,359
Grants receivable	30,554	13,749
Employee receivables	2,534	3,288
Gift certificates	85	85
Total accounts receivable	<u>41,908</u>	<u>31,481</u>
<b>Total current assets</b>	<u>101,413</u>	<u>125,397</u>
<b>Property and equipment:</b>		
Land	77,115	77,115
Buildings and improvements	551,291	482,182
Furniture and fixtures	69,804	64,718
Automobiles	20,800	20,800
	719,010	644,815
Less accumulated depreciation	<u>(180,045)</u>	<u>(161,174)</u>
<b>Net property and equipment</b>	<u>538,965</u>	<u>483,641</u>
<b>Loan costs, net of accumulated amortization of \$1,870</b>		
<b>in 2005 and \$1,210 in 2004</b>	<u>1,430</u>	<u>2,090</u>
<b>Total assets</b>	<u>\$ 641,808</u>	<u>611,128</u>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 10,483	8,087
Accrued payroll and benefits	30,762	26,080
Current portion of long term debt	11,528	10,876
<b>Total current liabilities</b>	<u>52,773</u>	<u>45,043</u>
<b>Long term debt, net of current portion</b>	<u>329,559</u>	<u>341,113</u>
<b>Total liabilities</b>	<u>382,332</u>	<u>386,156</u>
<b>Net assets:</b>		
Unrestricted net assets	256,115	160,187
Temporarily Restricted net assets	3,361	64,785
<b>Total net assets</b>	<u>259,476</u>	<u>224,972</u>
<b>Total liabilities and net assets</b>	<u>\$ 641,808</u>	<u>611,128</u>

See accompanying notes to financial statements.

# HOLLY STREET CORPORATION

## Statements of Activities and Changes in Net Assets

For the years ended December 31, 2005 and 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2005</u>	<u>Total 2004</u>
<b>Public support and revenue:</b>				
Program service revenue	\$ 629,067	—	629,067	588,450
Governmental grant revenue	125,968	—	125,968	170,105
Private grants	—	20,567	20,567	71,645
United Way contributions	31,953	—	31,953	37,562
Interest	417	—	417	86
Special events	23,833	—	23,833	21,632
Contributions	1,330	—	1,330	1,050
<b>Total support and revenue</b>	<b>812,568</b>	<b>20,567</b>	<b>833,135</b>	<b>890,530</b>
<b>Net assets released from restrictions</b>	<b>81,991</b>	<b>(81,991)</b>	<b>—</b>	<b>—</b>
	<b>894,559</b>	<b>(61,424)</b>	<b>833,135</b>	<b>890,530</b>
<b>Expenses:</b>				
<b>Program services:</b>				
Salaries and benefits	429,853	—	429,853	429,215
Payroll service fees	2,249	—	2,249	2,353
Teacher training	2,753	—	2,753	4,727
Lessons and field trips	12,373	—	12,373	10,085
Food service	42,535	—	42,535	43,173
Accounting fees	6,719	—	6,719	8,763
Vehicle expense	2,855	—	2,855	3,096
Depreciation	18,870	—	18,870	15,895
Amortization	660	—	660	660
Equipment rent	3,212	—	3,212	2,400
Occupancy	27,250	—	27,250	17,746
Security	1,807	—	1,807	1,247
Repairs and maintenance	10,860	—	10,860	8,951
Contract labor	17,988	—	17,988	17,809
Insurance	19,233	—	19,233	14,967
Supplies	15,566	—	15,566	9,950
Curriculum supplies	7,571	—	7,571	5,590
Telephone	4,044	—	4,044	4,374
Interest	20,908	—	20,908	22,220
Miscellaneous	14,187	—	14,187	11,418
<b>Total program services</b>	<b>661,493</b>	<b>—</b>	<b>661,493</b>	<b>634,639</b>
<b>Supporting services:</b>				
<b>General and administrative:</b>				
Salaries and benefits	132,165	—	132,165	125,815
Fund raising	4,973	—	4,973	5,103
<b>Total supporting services</b>	<b>137,138</b>	<b>—</b>	<b>137,138</b>	<b>130,918</b>
<b>Total expenses</b>	<b>798,631</b>	<b>—</b>	<b>798,631</b>	<b>765,557</b>
<b>Increase (decrease) in net asset</b>	<b>95,928</b>	<b>(61,424)</b>	<b>34,504</b>	<b>124,973</b>
<b>Net assets at beginning of year</b>	<b>160,187</b>	<b>64,785</b>	<b>224,972</b>	<b>99,999</b>
<b>Net assets at end of year</b>	<b>\$ 256,115</b>	<b>3,361</b>	<b>259,476</b>	<b>224,972</b>

See accompanying notes to financial statements.

# HOLLY STREET CORPORATION

## Statements of Cash Flows

For the years ended December 31, 2005 and 2004

<u>Cash Flows from Operating Activities</u>	<u>2005</u>	<u>2004</u>
<b>Cash received from:</b>		
Clients and public support	\$ 717,056	728,416
Federal, state, and local governments	109,163	170,853
Interest income	417	86
<b>Cash paid for:</b>		
Employees and vendors	(755,043)	(734,619)
Interest	(20,908)	(22,220)
Net operating activities	<u>50,685</u>	<u>142,516</u>
 <u>Cash Flows from Investing Activities</u>		
Purchase of capital assets	(74,194)	(49,818)
Net investing activities	(74,194)	(49,818)
 <u>Cash Flows from Financing Activities</u>		
Repayments of long term debt	(10,902)	(9,074)
Net financing activities	(10,902)	(9,074)
 Net increase (decrease) in cash and cash equivalents	(34,411)	83,624
Cash and cash equivalents at beginning of year	93,916	10,292
Cash and cash equivalents at end of year	\$ <u>59,505</u>	<u>93,916</u>
 <u>Reconciliation of increase in net assets to cash flows from operating activities</u>		
Increase in net assets	\$ 34,504	124,973
Depreciation and amortization	19,530	16,555
(Increase) decrease in operating assets:		
Accounts receivable	5,624	1,646
Grants receivable	(16,805)	748
Employee receivable	754	(2,433)
Gift certificates	—	(50)
Increase (decrease) in operating liabilities:		
Accounts payable	2,396	(5,354)
Accrued payroll and benefits	4,682	6,431
Net operating activities	\$ <u>50,685</u>	<u>142,516</u>

See accompanying notes to financial statements.

# HOLLY STREET CORPORATION

## Notes to Financial Statements

December 31, 2005 and 2004

### 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

#### 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 2005 2004

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.	\$ <u>341,087</u>	<u>351,989</u>
	341,087	351,989
Less current portion	<u>11,528</u>	<u>10,876</u>
	\$ <u><u>329,559</u></u>	<u><u>341,113</u></u>

Maturities of long term debt are as follows: \$11,528 in 2006; \$12,220 in 2007 and \$317,339 in 2008.

### (3) Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

Contributions for tuition subsidies	\$ <u><u>3,361</u></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.

Construction of school age building	\$ 45,425
Tuition subsidies	31,399
Purchase of equipment	4,167
Operations	<u>1,000</u>
	\$ <u><u>81,991</u></u>