

HOLLY STREET CORPORATION

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

HOLLY STREET CORPORATION

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Hill, Harper & Associates
Certified Public Accountants

Independent Auditors' Report

The Board of Directors

Holly Street Corporation

We have audited the accompanying statement of financial position of Holly Street Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion. An audit also includes evaluating the appropriateness of accounting policies used that the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hill, Harper & Associates

Franklin, Tennessee

February 12, 2014

HOLLY STREET CORPORATION

Statements of Financial Position

December 31, 2013 and 2012

	<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		\$ 53,897	8,428
Accounts receivable:			
Accounts receivable		53,319	87,088
Grants receivable		1,601	1,733
Employee receivables		5,932	7,102
Gift certificates		215	780
Total accounts receivable		<u>61,067</u>	<u>96,703</u>
Total current assets		<u>114,964</u>	<u>105,131</u>
Property and equipment:			
Land		77,115	77,115
Buildings and improvements		612,350	591,018
Furniture and fixtures		91,107	90,169
Automobiles		46,150	46,150
		<u>826,722</u>	<u>804,452</u>
Less accumulated depreciation		<u>(370,097)</u>	<u>(349,461)</u>
Net property and equipment		<u>456,625</u>	<u>454,991</u>
Total assets		<u><u>\$ 571,589</u></u>	<u><u>560,122</u></u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable		\$ 5,982	9,148
Accrued payroll and benefits		20,129	19,053
Current portion of long term debt		19,089	17,919
Total current liabilities		<u>45,200</u>	<u>46,120</u>
Long term debt, net of current portion		<u>218,084</u>	<u>237,197</u>
Total liabilities		<u>263,284</u>	<u>283,317</u>
Net assets:			
Unrestricted net assets		<u>308,305</u>	<u>276,805</u>
Total net assets		<u>308,305</u>	<u>276,805</u>
Total liabilities and net assets		<u><u>\$ 571,589</u></u>	<u><u>560,122</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Public support and revenue:		
Program service revenue	\$ 1,025,279	1,037,905
Governmental grant revenue	16,466	13,960
Private grants	17,728	1,300
United Way contributions	2,099	1,832
Interest	5	5
Special events	40,468	46,120
Contributions	112	9,750
Gain on sale of assets	-	1,300
Total support and revenue	<u>1,102,157</u>	<u>1,112,172</u>
Expenses:		
Program services:		
Salaries and benefits	690,724	701,235
Payroll service fees	3,243	3,178
Teacher training	3,812	970
Lessons and field trips	18,062	17,973
Food service	47,752	48,902
Accounting fees	8,366	11,748
Vehicle expense	4,465	6,277
Credit card fees	5,605	4,467
Depreciation	20,635	19,785
Equipment rent	3,918	3,816
Occupancy	42,254	39,488
Disposal service	1,071	2,241
Security	2,312	1,433
Repairs and maintenance	13,629	9,943
Contract labor	3,305	1,299
Insurance	32,621	33,994
Supplies	12,141	12,454
Curriculum supplies	2,955	3,166
Telephone	2,275	1,802
Interest	15,672	17,004
Miscellaneous	7,065	5,485
Total program services	<u>941,882</u>	<u>946,660</u>
Supporting services:		
General and administrative:		
Salaries and benefits	121,085	121,743
Fund raising	7,690	8,627
Total supporting services	<u>128,775</u>	<u>130,370</u>
Total expenses	<u>1,070,657</u>	<u>1,077,030</u>
Increase in net assets	31,500	35,142
Net assets at beginning of year	<u>276,805</u>	<u>241,663</u>
Net assets at end of year	<u>\$ 308,305</u>	<u>276,805</u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

<u>Cash Flows from Operating Activities</u>	<u>2013</u>	<u>2012</u>
Cash received from:		
Clients and public support	\$ 1,120,531	1,071,604
Federal, state, and local governments	16,598	13,264
Interest income	5	5
Cash paid for:		
Employees and vendors	(1,035,780)	(1,047,378)
Interest	(15,672)	(17,004)
Net operating activities	<u>85,682</u>	<u>20,491</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sale of capital assets	-	1,300
Purchase of capital assets	(22,270)	(16,425)
Net investing activities	<u>(22,270)</u>	<u>(15,125)</u>
<u>Cash Flows from Financing Activities</u>		
Repayments of long term debt	(17,943)	(17,205)
Net financing activities	<u>(17,943)</u>	<u>(17,205)</u>
Net increase (decrease) in cash and cash equivalents	45,469	(11,839)
Cash and cash equivalents at beginning of year	8,428	20,267
Cash and cash equivalents at end of year	<u>\$ 53,897</u>	<u>8,428</u>
<u>Reconciliation of increase in net assets to cash flows from operating activities</u>		
Increase in net assets	\$ 31,500	35,142
Depreciation	20,636	19,785
Gain on sale of fixed assets	-	(1,300)
(Increase) decrease in operating assets:		
Accounts receivable	33,769	(30,902)
Grants receivable	132	(696)
Employee receivable	1,170	(2,217)
Gift certificates	565	(135)
Increase (decrease) in operating liabilities:		
Bank overdraft	-	-
Accounts payable	(3,166)	(2,330)
Accrued payroll and benefits	1,076	3,144
Net operating activities	<u>\$ 85,682</u>	<u>20,491</u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Notes to Financial Statements

December 31, 2013 and 2012

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

As required by generally accepted accounting principles, the Day Care reports information regarding the financial position and activities according to three classes of net assets as applicable:

Unrestricted net assets- Net assets not subject to donor imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the governing body. The amount of unrestricted net assets is presented in the statements of financial position, and the change is presented in the statement of activities.

The Day Care does not have amounts to report in the remaining two classes of net assets which are: Temporarily and Permanently Restricted Net Assets.

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.

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.

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

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.

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.

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.

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. Further management believes that the Day Care has no activities which will lead to taxes being levied.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through February 12, 2014, the date these financial statements were available to be issued.

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.

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 are charged to operations when that determination is made.

HOLLY STREET CORPORATION

Notes to Financial Statements, Continued

(2) Commitments

The Day Care leases buildings under lease arrangements classified as operating leases. Total rent expense under this lease amounted to \$21,600 for the years ended December 31, 2013 and 2012. This lease is on a month to month basis.

(3) 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 \$53,319.

(4) Long Term Debt

2013

2012

Long term debt consists of the following:

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.

\$	<u>237,173</u>	<u>255,116</u>
	237,173	255,116
Less current portion	<u>19,089</u>	<u>17,919</u>
\$	<u><u>218,084</u></u>	<u><u>237,197</u></u>

Maturities of long term debt are as follows: ; \$19,089 in 2014; \$20,335 in 2015; \$21,663 in 2016; \$23,078 in 2017; \$24,585 in 2018 and \$128,423 thereafter.