

HOLLY STREET CORPORATION

Financial Statements

December 31, 2007 and 2006

(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, 2007 and 2006, 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, 2007 and 2006, 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

August 7, 2008

HOLLY STREET CORPORATION

Statements of Financial Position

December 31, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Cash:		
Cash and cash equivalents	\$ 30,109	49,248
Accounts receivable:		
Accounts receivable	45,208	39,683
Grants receivable	8,593	8,131
Employee receivables	3,407	1,596
Gift certificates	585	625
Total accounts receivable	<u>57,793</u>	<u>50,035</u>
Total current assets	<u>87,902</u>	<u>99,283</u>
Property and equipment:		
Land	77,115	77,115
Buildings and improvements	573,923	566,208
Furniture and fixtures	73,448	71,800
Automobiles	66,950	20,800
	<u>791,436</u>	<u>735,923</u>
Less accumulated depreciation	<u>(233,576)</u>	<u>(203,629)</u>
Net property and equipment	<u>557,860</u>	<u>532,294</u>
Loan costs, net of accumulated amortization of \$3,190 in 2007 and \$2,530 in 2006	<u>110</u>	<u>770</u>
Total assets	<u><u>\$ 645,872</u></u>	<u><u>632,347</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 12,959	13,423
Accrued payroll and benefits	28,246	30,004
Current portion of long term debt	321,352	12,220
Total current liabilities	<u>362,557</u>	<u>55,647</u>
Long term debt, net of current portion	<u>14,454</u>	<u>316,989</u>
Total liabilities	<u>377,011</u>	<u>372,636</u>
Net assets:		
Unrestricted net assets	268,861	249,711
Temporarily restricted net assets	<u>-</u>	<u>10,000</u>
Total net assets	<u>268,861</u>	<u>259,711</u>
Total liabilities and net assets	<u><u>\$ 645,872</u></u>	<u><u>632,347</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, 2007 and 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
Public support and revenue:				
Program service revenue	\$ 729,678	-	729,678	692,783
Governmental grant revenue	101,497	-	101,497	118,386
Private grants	-	12,026	12,026	10,000
United Way contributions	36,607	-	36,607	31,898
Interest	216	-	216	325
Special events	30,140	-	30,140	25,534
Contributions	2,921	-	2,921	5,300
Total support and revenue	901,059	12,026	913,085	884,226
Net assets released from restrictions	22,026	(22,026)	-	-
	923,085	(10,000)	913,085	884,226
Expenses:				
Program services:				
Salaries and benefits	506,456	-	506,456	578,343
Payroll service fees	1,977	-	1,977	2,389
Teacher training	2,437	-	2,437	2,792
Lessons and field trips	14,546	-	14,546	11,837
Food service	46,061	-	46,061	51,883
Accounting fees	8,002	-	8,002	8,214
Vehicle expense	3,590	-	3,590	2,264
Depreciation	30,488	-	30,488	23,043
Amortization	660	-	660	660
Equipment rent	2,431	-	2,431	2,734
Occupancy	44,610	-	44,610	40,534
Security	1,790	-	1,790	1,246
Repairs and maintenance	12,336	-	12,336	13,358
Contract labor	3,749	-	3,749	2,286
Insurance	21,842	-	21,842	15,287
Bad debts	7,748	-	7,748	1,591
Supplies	12,889	-	12,889	15,553
Curriculum supplies	8,285	-	8,285	6,765
Telephone	2,915	-	2,915	3,573
Interest	20,594	-	20,594	19,433
Miscellaneous	8,356	-	8,356	8,848
Total program services	761,762	-	761,762	812,633
Supporting services:				
General and administrative:				
Salaries and benefits	131,098	-	131,098	64,843
Fund raising	11,075	-	11,075	6,515
Total supporting services	142,173	-	142,173	71,358
Total expenses	903,935	-	903,935	883,991
Increase (decrease) in net assets	19,150	(10,000)	9,150	235
Net assets at beginning of year	249,711	10,000	259,711	259,476
Net assets at end of year	\$ 268,861	-	268,861	259,711

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Cash Flows

For the years ended December 31, 2007 and 2006

<u>Cash Flows from Operating Activities</u>	<u>2007</u>	<u>2006</u>
Cash received from:		
Clients and public support	\$ 804,089	755,629
Federal, state, and local governments	101,035	118,990
Interest income	216	325
Cash paid for:		
Employees and vendors	(854,428)	(837,517)
Interest	(20,594)	(19,433)
Net operating activities	<u>30,318</u>	<u>17,994</u>
 <u>Cash Flows from Investing Activities</u>		
Purchase of capital assets	<u>(56,054)</u>	<u>(16,373)</u>
Net investing activities	<u>(56,054)</u>	<u>(16,373)</u>
 <u>Cash Flows from Financing Activities</u>		
Proceeds from debt	22,000	-
Repayments of long term debt	<u>(15,403)</u>	<u>(11,878)</u>
Net financing activities	<u>6,597</u>	<u>(11,878)</u>
Net decrease in cash and cash equivalents	(19,139)	(10,257)
Cash and cash equivalents at beginning of year	<u>49,248</u>	<u>59,505</u>
Cash and cash equivalents at end of year	\$ <u><u>30,109</u></u>	<u><u>49,248</u></u>
 <u>Reconciliation of increase in net assets to cash flows from operating activities</u>		
Increase in net assets	\$ 9,150	235
Depreciation and amortization	31,148	23,703
(Increase) decrease in operating assets:		
Accounts receivable	(5,525)	(9,129)
Grants receivable	(462)	604
Employee receivable	(1,811)	938
Gift certificates	40	(540)
Increase (decrease) in operating liabilities:		
Accounts payable	(464)	2,940
Accrued payroll and benefits	(1,758)	(757)
Net operating activities	\$ <u><u>30,318</u></u>	<u><u>17,994</u></u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Notes to Financial Statements

December 31, 2007 and 2006

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 \$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.

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

(2) <u>Long Term Debt</u>	<u>2007</u>	<u>2006</u>
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.	\$ 18,520	-
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>317,286</u>	<u>329,209</u>
	335,806	329,209
Less current portion	<u>321,352</u>	<u>12,220</u>
	<u>\$ 14,454</u>	<u>316,989</u>

Maturities of long term debt are as follows: \$321,352 in 2008; \$4,366 in 2009; \$4,689 in 2010; \$5,036 in 2011 and \$363 in 2012.

(3) Temporarily Restricted Net Assets

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

Grant for renovations to center	\$ 12,026
Grant for purchase of bus	<u>10,000</u>
	<u>\$ 22,026</u>