

HOLLY STREET CORPORATION

Financial Statements

December 31, 2017 and 2016

(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**

Report on Financial Statements

We have audited the accompanying financial statements of Holly Street Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets 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, 2017 and 2016, 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
October 5, 2018**

HOLLY STREET CORPORATION

Statements of Financial Position

December 31, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 54,670	87,271
Accounts receivable:		
Accounts receivable	53,151	63,036
Employee receivables	4,866	1,645
Total accounts receivable	<u>58,017</u>	<u>64,681</u>
Prepaid insurance	2,378	3,347
Gift certificates	-	831
Total current assets	<u>115,065</u>	<u>156,130</u>
Property and equipment:		
Land	77,115	77,115
Buildings and improvements	713,922	654,580
Furniture and fixtures	104,201	102,675
Automobiles	46,150	46,150
	941,388	880,520
Less accumulated depreciation	(467,697)	(443,401)
Net property and equipment	<u>473,691</u>	<u>437,119</u>
Total assets	<u><u>\$ 588,756</u></u>	<u><u>593,249</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 6,703	9,220
Accrued payroll and benefits	31,940	29,617
Line of credit	39,990	-
Current portion of long term debt	24,585	23,078
Total current liabilities	<u>103,218</u>	<u>61,915</u>
Long term debt, net of current portion	<u>128,391</u>	<u>152,986</u>
Total liabilities	<u>231,609</u>	<u>214,901</u>
Net assets:		
Unrestricted net assets	<u>357,147</u>	<u>378,348</u>
Total net assets	<u>357,147</u>	<u>378,348</u>
Total liabilities and net assets	<u><u>\$ 588,756</u></u>	<u><u>593,249</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Public support and revenue:		
Program service revenue	\$ 1,012,533	979,285
Governmental grant revenue	-	1,508
Private grants	3,543	258
United Way contributions	1,079	1,810
Interest	25	20
Special events	27,745	35,637
Contributions	3,876	2,011
Total support and revenue	<u>1,048,801</u>	<u>1,020,529</u>
Expenses:		
Program services:		
Salaries and benefits	671,521	658,532
Payroll service fees	3,585	3,554
Teacher training	1,826	656
Lessons and field trips	16,244	16,620
Food service	24,031	25,048
Accounting fees	8,386	9,100
Vehicle expense	2,483	5,470
Credit card fees	7,452	8,906
Depreciation	24,295	24,765
Equipment rent	4,607	4,352
Occupancy	51,724	42,932
Disposal service	1,270	1,244
Security	1,802	1,266
Repairs and maintenance	3,926	5,689
Contract labor	4,040	2,308
Insurance	24,702	18,781
Supplies	15,857	18,278
Curriculum supplies	2,870	5,594
Telephone	754	670
Interest	11,964	14,516
Landscaping	7,950	7,600
Miscellaneous	9,094	5,031
Total program services	<u>900,383</u>	<u>880,912</u>
Supporting services:		
General and administrative:		
Salaries and benefits	161,942	123,347
Fund raising	7,677	10,466
Total supporting services	<u>169,619</u>	<u>133,813</u>
Total expenses	<u>1,070,002</u>	<u>1,014,725</u>
Change in net assets	(21,201)	5,804
Net assets at beginning of year	<u>378,348</u>	<u>372,544</u>
Net assets at end of year	<u>\$ 357,147</u>	<u>378,348</u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

<u>Cash Flows from Operating Activities</u>	<u>2017</u>	<u>2016</u>
Cash received from:		
Clients and public support	\$ 1,058,662	1,023,961
Federal, state, and local governments	-	1,969
Interest income	25	20
Cash paid for:		
Employees and vendors	(1,035,358)	(968,855)
Interest	(11,964)	(14,516)
Net operating activities	<u>11,365</u>	<u>42,579</u>
 <u>Cash Flows from Investing Activities</u>		
Purchase of capital assets	<u>(60,868)</u>	<u>(31,194)</u>
Net investing activities	<u>(60,868)</u>	<u>(31,194)</u>
 <u>Cash Flows from Financing Activities</u>		
Repayments of long term debt	(23,088)	(21,644)
Net borrowings from line of credit agreement	<u>39,990</u>	<u>-</u>
Net financing activities	<u>16,902</u>	<u>(21,644)</u>
Net decrease in cash and cash equivalents	(32,601)	(10,259)
Cash and cash equivalents at beginning of year	<u>87,271</u>	<u>97,530</u>
Cash and cash equivalents at end of year	<u>\$ 54,670</u>	<u>87,271</u>
 <u>Reconciliation of increase in net assets to cash flows from operating activities</u>		
Change in net assets	\$ (21,201)	5,804
Depreciation	24,295	24,765
(Increase) decrease in operating assets:		
Accounts receivable	9,886	4,960
Grants receivable	-	461
Employee receivable	(3,221)	2,351
Prepaid insurance	969	4,743
Gift certificates	831	-
Increase (decrease) in operating liabilities:		
Accounts payable	(2,517)	2,169
Accrued payroll and benefits	<u>2,323</u>	<u>(2,674)</u>
Net operating activities	<u>\$ 11,365</u>	<u>42,579</u>

See accompanying notes to financial statements.

HOLLY STREET CORPORATION

Notes to Financial Statements

December 31, 2017 and 2016

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.

(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.

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 October 5, 2018, 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 \$33,200 and \$21,650 for the years ended December 31, 2017 and 2016, respectively. 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 \$53,151.

(4) **Long Term Debt**

2017

2016

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>152,976</u>	<u>176,064</u>
	152,976	176,064
	<u>24,585</u>	<u>23,078</u>
	128,391	152,986

Less current portion

Maturities of long term debt are as follows: \$24,585 in 2018; \$26,190 in 2019; \$27,900 in 2020; \$29,722 in 2021; \$31,663 in 2022 and \$12,916 in 2023.

(5) **Line of Credit**

The Company has a \$100,000 line of credit bearing interest at 5.25% with a local financial institution. As of December 31, 2017 the outstanding balance amounted to \$39,990. The line of credit is secured by the assets of the Company.