

**HIGH HOPES, INC.**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**

**For the Years Ended August 31, 2007 and 2006**

**HIGH HOPES, INC.**  
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**S R Brown, CPA**  
Certified Public Accountant

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**Independent Auditor's Report**

To the Board of Directors of  
High Hopes, Inc.  
Brentwood, Tennessee

We have audited the accompanying statement of financial position of High Hopes, Inc. (a nonprofit organization) as of August 31, 2007 and 2006, and the related statement of activities, functional expenses, 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 audit.

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 audits 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 High Hopes, Inc. as of August 31, 2006 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

S R Brown, CPA  
Hendersonville, Tennessee  
December 19, 2007

**High Hopes, Inc.**  
**Statements of Financial Position**  
**As of August 31, 2007 and 2006**

	<u>August 31, 2007</u>	<u>August 31, 2006</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents .....	\$ 24,846	\$ 20,068
Accounts receivable, net .....	110,739	98,316
Deposits and other current assets .....	-	10,134
Total current assets.....	<u>135,585</u>	<u>128,518</u>
Property and equipment, net .....	<u>150,397</u>	<u>72,111</u>
Total assets.....	<u><u>\$ 285,982</u></u>	<u><u>\$ 200,629</u></u>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable .....	\$ 59,166	\$ 32,800
Accrued expenses .....	24,722	30,896
Obligations under line of credit .....	49,976	2,116
Notes payable – related parties .....	-	-
Total current liabilities .....	<u>133,864</u>	<u>65,812</u>
Net assets		
Unrestricted.....	137,156	133,154
Temporarily restricted.....	14,962	1,663
Total net assets .....	<u>152,118</u>	<u>134,817</u>
Total liabilities and net assets .....	<u><u>\$ 285,982</u></u>	<u><u>\$ 200,629</u></u>

See accompanying notes.

**High Hopes, Inc.**  
**Statement of Activities**  
**For the Year Ended August 31, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions:			
United Way.....	\$ 2,530	\$ -	\$ 2,530
Other.....	124,201	88,197	212,398
Therapy fees, net .....	336,142	-	336,142
Tuition and fees.....	498,975	-	498,975
Special events.....	123,630	-	123,630
Less: donor direct benefit costs .....	(52,169)	-	(52,169)
In-kind contributions .....	10,300	-	10,300
Other income.....	3,608	-	3,608
Net assets released from restrictions	74,898	(74,898)	-
Total support and revenue.....	<u>1,122,115</u>	<u>13,299</u>	<u>1,135,414</u>
Expenses			
Program services .....	935,935	-	935,935
Management and general .....	119,015	-	119,015
Fundraising.....	63,163	-	63,163
Total expenses .....	<u>1,118,113</u>	<u>-</u>	<u>1,118,113</u>
Change in net assets.....	4,002	13,299	17,301
Net assets at beginning of year.....	<u>133,154</u>	<u>1,663</u>	<u>134,817</u>
Net assets at end of year.....	<u>\$ 137,156</u>	<u>\$ 14,962</u>	<u>\$ 152,118</u>

See accompanying notes.

**High Hopes, Inc.**  
**Statement of Activities**  
**For the Year Ended August 31, 2006**

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions:			
United Way.....	\$ 4,355	\$ -	\$ 4,355
Other.....	213,088	35,321	248,409
Therapy fees, net .....	358,348	-	358,348
Tuition and fees.....	362,268	-	362,268
Special events.....	67,891	-	67,891
Less: donor direct benefit costs .....	(11,967)	-	(11,967)
In-kind contributions .....	53,544	-	53,544
Debt forgiveness .....	58,667	-	58,667
Other income .....	11,241	-	11,241
Net assets released from restrictions	115,802	(115,802)	-
Total support and revenue.....	<u>1,233,237</u>	<u>(80,481)</u>	<u>1,152,756</u>
Expenses			
Program services .....	711,021	-	711,021
Management and general .....	221,897	-	221,897
Fundraising.....	72,550	-	72,550
Total expenses .....	<u>1,005,468</u>	<u>-</u>	<u>1,005,468</u>
Change in net assets .....	227,769	(80,481)	147,288
Net assets at beginning of year.....	<u>(94,615)</u>	<u>82,144</u>	<u>(12,471)</u>
Net assets at end of year.....	<u>\$ 133,154</u>	<u>\$ 1,663</u>	<u>\$ 134,817</u>

See accompanying notes.

**High Hopes, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended August 31, 2007**

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Education</u>	<u>Therapy</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total Functional Expenses</u>
Salaries	\$ 380,687	\$ 206,116	\$ 586,803	\$ 69,301	\$ 42,000	\$ 111,301	\$ 698,104
Payroll taxes	28,814	15,601	44,415	5,246	3,179	8,425	52,840
Employee benefits	40,515	21,936	62,451	7,376	4,470	11,846	74,297
Total salaries and related expenses	450,016	243,653	693,669	81,923	49,649	131,572	825,241
Advertising	2,134	1,155	3,289	388	236	624	3,913
Contractual services	7,037	26,591	33,628	5,650	-	5,650	39,278
Depreciation	12,150	6,579	18,729	2,212	1,340	3,552	22,281
Equipment maintenance	6,070	3,287	9,357	1,105	670	1,775	11,132
Insurance	7,316	3,962	11,278	1,332	807	2,139	13,417
Interest	1,592	862	2,454	290	176	466	2,920
Occupancy	71,311	38,610	109,921	12,982	7,867	20,849	130,770
Other	6,516	3,573	10,089	1,168	708	1,876	11,965
Postage	918	497	1,415	167	101	268	1,683
Professional fees	6,314	3,419	9,733	1,149	697	1,846	11,579
Special event costs	-	-	-	13	52,156	52,169	52,169
Bad debts	1,625	880	2,505	-	-	-	2,505
Printing	3,674	1,989	5,663	669	405	1,074	6,737
Supplies	9,588	7,203	16,791	3,448	-	3,448	20,239
Telephone	4,596	2,489	7,085	837	507	1,344	8,429
Training	130	199	329	5,695	-	5,695	6,024
Total expenses	590,987	344,948	935,935	119,028	115,319	234,347	1,170,282
Less expenses included with revenues on the statement activities – donor direct benefit costs	-	-	-	(13)	(52,156)	(52,169)	(52,169)
Total expenses included in the expense section of the statement of activities	<u>\$ 590,987</u>	<u>\$ 344,948</u>	<u>\$ 935,935</u>	<u>\$ 119,015</u>	<u>\$ 63,163</u>	<u>\$ 182,178</u>	<u>\$ 1,118,113</u>

See accompanying notes.

**High Hopes, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended August 31, 2006**

	Program Services			Supporting Services			
	Education	Therapy	Total Program Services	Management and General	Fundraising	Total Support Services	Total Functional Expenses
Salaries	\$ 262,457	\$ 143,201	\$ 405,658	\$ 121,438	\$ 41,686	\$ 163,124	\$ 568,782
Payroll taxes	23,453	12,796	36,249	10,852	3,725	14,577	50,826
Employee benefits	28,339	15,462	43,801	13,112	4,501	17,613	61,414
Total salaries and related expenses	314,249	171,459	485,708	145,402	49,912	195,314	681,022
Advertising	1,185	647	1,832	548	188	736	2,568
Contractual services	1,074	586	1,660	497	171	668	2,328
Depreciation	5,600	3,056	8,656	2,591	890	3,481	12,137
Equipment maintenance	2,238	1,221	3,459	1,036	356	1,392	4,851
Insurance	4,765	2,600	7,365	2,205	757	2,962	10,327
Interest	1,331	726	2,057	11,159	211	11,370	13,427
Occupancy	43,719	23,854	67,573	20,229	6,944	27,173	94,746
Other	6,563	3,581	10,144	3,037	1,042	4,079	14,223
Postage	879	479	1,358	407	140	547	1,905
Professional fees	36,803	20,081	56,884	17,029	5,845	22,874	79,758
Special event costs	-	-	-	-	11,967	11,967	11,967
Bad debts	3,238	1,766	5,004	-	-	-	5,004
Printing	736	402	1,138	341	117	458	1,596
Loss on disposal of assets	16,605	9,060	25,665	7,683	2,637	10,320	35,985
Supplies	13,671	7,459	21,130	6,325	2,171	8,496	29,626
Telephone	4,730	2,581	7,311	2,188	751	2,939	10,250
Training	461	252	713	213	73	286	999
Travel	8	5	13	4	1	5	18
Utilities	2,168	1,183	3,351	1,003	344	1,347	4,698
Total expenses	460,023	250,998	711,021	221,897	84,517	306,414	1,017,435
Less expenses included with revenues on the statement activities – donor direct benefit costs	-	-	-	-	(11,967)	(11,967)	(11,967)
Total expenses included in the expense section of the statement of activities	<u>\$ 460,023</u>	<u>\$ 250,998</u>	<u>\$ 711,021</u>	<u>\$ 221,897</u>	<u>\$ 72,550</u>	<u>\$ 294,447</u>	<u>\$ 1,005,468</u>

See accompanying notes.



**High Hopes, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended August 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities:</b>		
Change in net assets .....	\$ 17,301	\$ 147,288
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation .....	22,281	12,137
Loss on disposal of assets .....	-	35,985
Donated property and equipment .....	(10,100)	(31,092)
Debt forgiveness .....	-	(58,667)
Increase in accounts receivable, net .....	(12,423)	(63,903)
Decrease in contributions receivable .....	-	53,000
Decrease in other current assets .....	10,134	591
Increase (decrease) in accounts payable and accrued expenses ..	20,192	(1,936)
Net cash provided by operating activities .....	<u>47,385</u>	<u>93,403</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment .....	(90,467)	(41,938)
Net cash used in investing activities .....	<u>(90,467)</u>	<u>(41,938)</u>
<b>Cash flows from financing activities:</b>		
Net borrowings (repayments) on revolving lines of credit .....	47,860	(66,916)
Net repayments from related parties .....	-	(2,368)
Net cash provided by (used in) financing activities .....	<u>47,860</u>	<u>(69,284)</u>
Net increase (decrease) in cash and cash equivalents .....	4,778	(17,819)
Cash and cash equivalents, at beginning of period .....	20,068	37,887
Cash and cash equivalents, at end of period .....	<u>\$ 24,846</u>	<u>\$ 20,068</u>
<b>Supplemental disclosure of cash flows information:</b>		
Interest paid .....	<u>\$ 6,910</u>	<u>\$ 995</u>
Income taxes paid .....	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

**High Hopes, Inc.**  
**Notes to the Financial Statements**  
**August 31, 2007 and 2006**

**1. Description of the Organization and Summary of Significant Accounting Policies**

High Hopes, Inc. (the “Organization”) was organized in 1984. The Organization, located in Brentwood, Tennessee, is an early intervention preschool and pediatric rehabilitation center which embraces the whole child with tools for learning and skills for life.

*Basis of Presentation*

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Contributions and Support*

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

*Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Organization considers all cash funds and cash bank accounts with an original maturity of three months or less to be cash and cash equivalents.

*Contributions Receivable*

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met. No contributions receivable were due as of August 31, 2007 and 2006.

*Donated Materials and Services*

Donated materials and equipment, if any, are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Additionally, a number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and

**High Hopes, Inc.**  
**Notes to the Financial Statements**  
**August 31, 2007 and 2006**

special projects. However, these services do not meet the requirements above and have not been recorded.

*Net Tuition, Therapy and Other Service Fees*

Net tuition, therapy and other service fees are recorded at the estimated net realizable amounts from families, third-party payors and others for services rendered. Tuition, therapy and other service fees are recorded at the Organization's established rates with contractual adjustments deducted to arrive at applicable net fees.

Contractual adjustments represent the difference between the Organization's established rates and third-party payor payments. An allowance for estimated contractual adjustments is recorded during the period in which the services are provided and adjusted to actual when payments are received.

*Advertising Costs*

Advertising costs are expensed as incurred.

*Property and Depreciation*

Property and equipment are recorded at cost or at fair value as of the date purchased or contributed. Costs of maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated lives of the respective assets ranging from five to 10 years.

*Income Taxes*

The Organization, which is not a private foundation, is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

*Program and Supporting Services*

The following program and supporting services were included in the accompanying financial statements.

**Program Services**—Includes activities carried out to fulfill the Organization's mission to provide an early intervention preschool and rehabilitation center for children with special needs in a traditional educational classroom with a concentration in physical, speech and occupational therapy.

**Management and General**—Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Includes costs associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting and related purposes.

**High Hopes, Inc.**  
**Notes to the Financial Statements**  
**August 31, 2007 and 2006**

**Fundraising**—Includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitation and creation and distribution of fundraising materials.

*Allocation of Functional Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program and support services based on estimates by management.

*Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management of the Organization to make estimates and assumptions that affect the reported assets and liabilities and contingency disclosures at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**2. Accounts Receivable**

Accounts receivable are from third-party payors and patients and are reported net of estimated contractual adjustments and allowances for bad debts. Third-party payors consist primarily of commercial insurance carriers. As of August 31, 2007 and 2006, accounts receivable consisted of the following:

	<u>2007</u>	<u>2006</u>
Accounts receivable from tuition and therapy services .....	\$ 124,409	\$ 115,996
Less allowance for contractual adjustments and allowances for bad debts.....	<u>(13,670)</u>	<u>(17,680)</u>
Account receivable, net	<u>\$ 110,739</u>	<u>\$ 98,316</u>

**High Hopes, Inc.**  
**Notes to the Financial Statements**  
**August 31, 2007 and 2006**

### 3. Property and Equipment

Property and equipment consisted of the following as of August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Furniture and equipment.....	\$ 123,575	\$ 84,366
Playground equipment .....	12,966	12,966
Leasehold improvements .....	<u>72,326</u>	<u>10,968</u>
	208,867	108,300
Less: accumulated depreciation ....	<u>(58,470)</u>	<u>(36,189)</u>
Property and equipment, net .....	<u>\$ 150,397</u>	<u>\$ 72,111</u>

### 4. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for the year ended August 31, 2007 were as follows:

	<u>Beginning of Year</u>	<u>Restricted Contributions</u>	<u>Released from Restriction</u>	<u>End of Year</u>
Facility expansion .....	\$ -	\$ 35,000	\$ (31,051)	\$ 3,949
Programs .....	-	28,879	(23,772)	5,107
Equipment .....	-	15,700	(15,544)	156
Video .....	-	5,500	-	5,500
Other .....	<u>1,663</u>	<u>3,118</u>	<u>(4,531)</u>	<u>250</u>
	<u>\$ 1,663</u>	<u>\$ 88,197</u>	<u>\$ (74,898)</u>	<u>\$ 14,962</u>

Changes in temporarily restricted net assets for the year ended August 31, 2006 were as follows:

	<u>Beginning of Year</u>	<u>Restricted Contributions</u>	<u>Released from Restriction</u>	<u>End of Year</u>
Contributions receivable— time restriction .....	\$ 53,000	\$ -	\$ (53,000)	\$ -
Asset purchases for the new location .....	27,906	13,000	(40,906)	-
Relocation expenses .....	-	15,000	(15,000)	-
Frist Foundation—technology grant .....	1,238	-	(1,238)	-
Tuition .....	-	3,071	(3,071)	-
Other .....	-	4,250	(2,587)	1,663
	<u>\$ 82,144</u>	<u>\$ 35,321</u>	<u>\$ (115,802)</u>	<u>\$ 1,663</u>

**High Hopes, Inc.**  
**Notes to the Financial Statements**  
**August 31, 2007 and 2006**

## **5. Employee Benefits**

The Organization has a medical insurance plan for all full-time employees. The costs of this plan for the years ended August 31, 2007 and 2006 were \$61,390 and \$57,397, respectively.

## **6. Notes Payable**

The Organization had a line of credit from a financial institution with a maximum borrowing availability of \$75,000. The line of credit was secured by substantially all of the Organization's assets. The line of credit paid interest at 12% per annum. The line of credit required monthly interest payments on the outstanding balance through June 2004. The Organization was then required to make monthly payments of \$1,000, which included principal and interest, from July 2004 through June 2005. The line of credit was verbally amended to continue the \$1,000 monthly payments until the outstanding obligation was satisfied. The remaining balance on the line of credit was repaid during May 2006.

During 2005, the Organization obtained an additional line of credit from a financial institution with maximum borrowing availability of \$50,000. The line of credit is secured by the Organizations tangible property and is payable on demand. The line of credit requires monthly interest payments on the outstanding balance at prime, which was 8.25% as of August 31, 2007 and 2006, respectively. The outstanding balance on the line of credit was \$49,976 and \$2,116 as of August 31, 2007 and 2006, respectively.

The Organization's former executive director made non-interest and interest bearing loans to the Organization during 2004 and 2005. The interest rate on the interest bearing loans was 12% per annum. During the 2005 fiscal year, the Organization was notified that \$26,564 of principal and interest on these loans was forgiven. Accordingly, the debt forgiveness was reported as contributions income during the year ended August 31, 2006. The remaining balance was repaid during March 2006.

## **7. Operating Lease Commitments**

The Organization leased its former facility in Brentwood, Tennessee under an operating lease. The Organization moved from this facility during March 2006. Lease expense related to the former facility was \$39,089 for the year ended August 31, 2006.

On December 5, 2005, the Organization entered into a five-year lease agreement, effective March 1, 2006, for its new facility located on Mallory Lane in Brentwood, Tennessee. The Organization relocated its preschool and rehabilitation center to the new facility during March 2006. Furthermore, during March 2007, the Organization entered into a second five-year lease to expand its operations at the Mallory Lane location. Lease expense for the facility was \$130,770 and \$54,002 for the year ended August 31, 2007 and 2006, respectively.

**High Hopes, Inc.**  
**Notes to the Financial Statements**  
**August 31, 2007 and 2006**

Future minimum lease commitments under this new lease agreement are as follows:

2008 .....	\$	<b>241,038</b>
2009 .....		<b>247,938</b>
2010 .....		<b>254,838</b>
2011 .....		<b>184,176</b>
2012 .....		<b>111,600</b>
Thereafter.....		-
	\$	<b><u>1,039,590</u></b>