

**COMMUNITY CHILD CARE
SERVICES, INC.**

Financial Statements

June 30, 2004 and 2003

COMMUNITY CHILD CARE SERVICES, INC.

Financial Statements
June 30, 2004 and 2003

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Parker, Parker & Associates, PLC

Certified Public Accountants

1000 NORTHCHASE DRIVE - SUITE 260
GOODLETTSVILLE, TN 37072

STEVEN B. PARKER, CPA
CHARLES N. PARKER, CPA
KAREN R. STEPHENS, CPA
JUDITH C. ANGKAW, CPA
JARED L. SMALLING, CPA
AMANDA L. DEWESEE, CPA

TELEPHONE: 615-859-8800
FAX: 615-859-8188
WWW.PARKERCPA.NET

Independent Auditors' Report

To the Board of Directors
Community Child Care Services, Inc.
Hendersonville, Tennessee

We have audited the statement of financial position of Community Child Care Services, Inc. (a nonprofit organization) as of June 30, 2004, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Community Child Care Services, Inc. as of June 30, 2003, were audited by other auditors whose report dated October 24, 2004, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of Community Child Care Services, Inc. as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Parker, Parker & Associates

October 26, 2004

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Financial Position
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Current Assets		
Cash	\$ 107,838	\$ 75,284
Accounts Receivable	32,748	4,897
Prepaid Insurance	3,591	-
Inventory	<u>-</u>	<u>2,000</u>
Total Current Assets	<u>144,177</u>	<u>82,181</u>
Property, Plant and Equipment		
Land	80,000	80,000
Building	388,189	388,189
Equipment	48,552	47,992
Furniture and Fixtures	<u>11,265</u>	<u>11,023</u>
	528,007	527,205
Less: Accumulated Depreciation	<u>(76,991)</u>	<u>(61,503)</u>
Total Property, Plant and Equipment	<u>451,016</u>	<u>465,702</u>
Other Assets		
Restricted Cash	<u>38,075</u>	<u>32</u>
Total Assets	<u>\$ 633,268</u>	<u>\$ 547,916</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 1,193	\$ -
Accrued Payroll	8,780	9,374
Payroll Taxes and Withholdings Payable	<u>2,425</u>	<u>717</u>
Total Current Liabilities	<u>12,398</u>	<u>10,091</u>
Net Assets		
Board Designated	38,075	32
Unrestricted	557,795	537,793
Temporarily Restricted	<u>25,000</u>	<u>-</u>
Total Net Assets	<u>620,870</u>	<u>537,825</u>
Total Liabilities and Net Assets	<u>\$ 633,268</u>	<u>\$ 547,916</u>

See independent auditors' report and notes to financial statements.

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Activities
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Unrestricted Net Assets		
Public Support and Revenues		
Public Support:		
Contributions	\$ 11,113	\$ 19,604
United Way	32,500	40,500
Memorial Foundation	25,000	-
Government Fees and Grants	204,788	176,060
Donated Services	<u>10,896</u>	<u>11,436</u>
Total Public Support	<u>284,297</u>	<u>247,600</u>
Revenue:		
Fees	199,997	171,192
Interest Income	<u>388</u>	<u>201</u>
Total Revenue	<u>200,385</u>	<u>171,393</u>
Total Public Support and Revenues	<u>484,682</u>	<u>418,993</u>
Expenses		
Program Services	306,753	293,042
Management and General	107,598	102,031
Fundraising	<u>12,286</u>	<u>11,537</u>
Total Expenses	<u>426,637</u>	<u>406,610</u>
Increase in Unrestricted Net Assets	<u>58,045</u>	<u>12,383</u>
Temporarily Restricted Net Assets		
Memorial Foundation Grant	<u>25,000</u>	<u>-</u>
Increase in Temporarily Restricted Net Assets	<u>25,000</u>	<u>-</u>
Increase in Net Assets	83,045	12,383
Net Assets - Beginning of Year	<u>537,825</u>	<u>525,442</u>
Net Assets - End of Year	<u>\$ 620,870</u>	<u>\$ 537,825</u>

See independent auditors' report and notes to financial statements.

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Functional Expenses
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	Supporting Services				Supporting Services			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Salaries	\$ 225,106	\$ 45,021	\$ 11,255	\$ 281,382	\$ 213,979	\$ 42,796	\$ 10,699	\$ 267,474
Payroll Taxes	20,610	4,122	1,031	25,762	16,757	3,351	838	20,946
Food	29,707	-	-	29,707	27,428	-	-	27,428
Insurance	11,418	4,894	-	16,312	13,998	5,999	-	19,997
Employee Benefits	16	-	-	16	815	-	-	815
Supplies	3,377	2,995	-	6,373	3,803	3,373	-	7,176
Staff Training	555	-	-	555	679	-	-	679
Bank Charges	-	86	-	86	-	74	-	74
Housekeeping	-	6,770	-	6,770	-	3,650	-	3,650
Accounting	-	14,421	-	14,421	-	14,377	-	14,377
Auditing	-	1,625	-	1,625	-	1,625	-	1,625
Advertising	-	32	-	32	-	49	-	49
Contributions	475	-	-	475	-	-	-	-
Dues and Subscriptions	-	702	-	702	-	350	-	350
Miscellaneous	-	6,313	-	6,313	-	2,385	-	2,385
Office Supplies	-	1,925	-	1,925	-	2,635	-	2,635
Flowers and Gifts	-	388	-	388	-	397	-	397
Postage	-	398	-	398	-	177	-	177
Repairs and Maintenance	-	3,807	-	3,807	-	4,757	-	4,757
Interest	-	-	-	-	-	1,727	-	1,727
Seminars and Conferences	-	148	-	148	-	1,058	-	1,058
Utilities	-	11,543	-	11,543	-	9,867	-	9,867
Licenses and Permits	-	-	-	-	-	530	-	530
Taxes	-	280	-	280	-	180	-	180
Telephone	-	1,533	-	1,533	-	2,281	-	2,281
Total Before Depreciation	291,265	107,598	12,286	411,149	277,459	102,031	11,537	391,027
Depreciation	15,488	-	-	15,488	15,583	-	-	15,583
Total Expenses	<u>\$ 306,753</u>	<u>\$ 107,598</u>	<u>\$ 12,286</u>	<u>\$ 426,637</u>	<u>\$ 293,042</u>	<u>\$ 102,031</u>	<u>\$ 11,537</u>	<u>\$ 406,610</u>

See independent auditors' report and notes to financial statements.

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Cash Flows
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2004</u>
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 83,045	\$ 12,383
Adjustments to Reconcile Increase in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	15,488	15,583
Increase in Accounts Receivable	(27,851)	(286)
Increase in Prepaid Insurance	(3,591)	-
Decrease in Inventory	2,000	-
Increase in Accounts Payable	1,193	-
Decrease in Accrued Interest	-	(257)
Increase (Decrease) in Accrued Liabilities	1,114	(2,252)
Total Adjustments	<u>(11,646)</u>	<u>12,788</u>
Net Cash Provided by Operating Activities	<u>71,399</u>	<u>25,171</u>
 Cash Flows from Investing Activities		
Cash Payments for the Purchase of Property	<u>(802)</u>	<u>(2,252)</u>
Net Cash Used by Investing Activities	<u>(802)</u>	<u>(2,252)</u>
 Cash Flows from Financing Activities		
Principal Payments on Note Payable	<u>-</u>	<u>(32,411)</u>
Net Cash Used by Financing Activities	<u>-</u>	<u>(32,411)</u>
 Net Increase (Decrease) in Cash and Restricted Cash	70,597	(9,492)
 Cash and Restricted Cash - Beginning of Year	<u>75,316</u>	<u>84,808</u>
 Cash and Restricted Cash - End of Year	<u>\$ 145,913</u>	<u>\$ 75,316</u>

See independent auditors' report and notes to financial statements.

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements
June 30, 2004 and 2003

Note 1. Summary of Significant Accounting Policies

A. Organization and Nature of Activities

Community Child Care Services, Inc. is a nonprofit organization chartered in Tennessee and fully licensed by the Tennessee Department of Human Services. The organization is administered by a separate Board of Directors. Their purpose is to operate a quality child care center for children from low income, disadvantaged homes. The service is extended to children of all races, religions and handicaps in a non-discriminatory manner.

B. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Financial Statement Presentation

The net assets of Community Child Care Services, Inc. and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that do not expire with the passage of time and cannot be removed or fulfilled by the Organization's actions. Permanently restricted net assets must be maintained by the Organization in perpetuity.

D. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes cash on hand, demand deposits and investments with initial maturities of three months or less.

F. Property, Plant and Equipment

Property, plant and equipment are carried at cost if purchased or fair market value if donated. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

G. Income Taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

H. Functional Expenses

Expenses are charged directly to program, management and general, or fundraising based on specific identification.

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
June 30, 2004 and 2003

Note 1. Summary of Significant Accounting Policies - Continued

I. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

J. Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was \$32 and \$49 for the years ended June 30, 2004 and 2003, respectively.

Note 2. Donated Materials, Services, Facilities and Assets

Donated materials, services, facilities and assets are used in the ongoing operations of the center. Contributed services 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) requires specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No amounts are reflected in the financial statements for immaterial volunteer services and materials donated to the center in as much as no objective basis is available to measure the value of such services and materials.

The value of donated services and assets included in the financial statements and the corresponding expenditure or asset capitalization for the year ended June 30, 2004 and 2003 are as follows:

<u>Revenues</u>	<u>2004</u>	<u>2003</u>
Donated Services	<u>\$10,896</u>	<u>\$11,436</u>
<u>Expenses</u>		
Accounting	<u>\$10,896</u>	<u>\$11,436</u>

Note 3. Concentrations

The Organization is economically dependent on grants from the State of Tennessee. During the years ended June 30, 2004 and 2003, the Organization received 30% and 28% of total revenue from the State of Tennessee Child Care Assistance Program. The Organization also received 10% of total revenue from the Memorial Foundation.

The Clinic maintains checking and savings accounts and a certificate of deposit with First Independent Bank in Tennessee. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2004, the Organization's accounts exceeded the insurance coverage by \$46,853.

Note 4. Related Parties

The professional accounting services which were donated in the years ended June 30, 2004 and 2003 were from The Horne Group. Lucy Carter, CPA serves on the Board of Community Child Care Services, Inc. and is a shareholder in the CPA firm.

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
June 30, 2004 and 2003

Note 5. Net Assets

The Board of Directors has self-imposed restricted net assets for the following purpose as of June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Building Fund	<u>\$ 38,075</u>	<u>\$ 32</u>

Temporarily restricted net assets of \$25,000 are available from the Memorial Foundation for insurance coverage as of June 30, 2004.

Note 6. Inventories

Inventories are stated at market value. Inventories for the year ended June 30, 2004 and 2003 were donated and consisted of the following:

	<u>2004</u>	<u>2003</u>
City by the Lake Books	<u>\$ -</u>	<u>\$ 2,000</u>