



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
High Hopes, Inc.  
Brentwood, Tennessee

We have audited the accompanying statements of financial position of High Hopes, Inc. (the "Organization") as of August 31, 2005 and 2004, and the related statements of activities, cash flows and functional expenses 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 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 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
April 12, 2006

HIGH HOPES, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 37,887	\$ 12,844
Accounts receivable, net - Note 3	34,413	95,094
Contributions receivable	53,000	73,385
Deposits and other	10,725	4,250
Property and equipment, net - Note 4	<u>47,203</u>	<u>50,687</u>
TOTAL ASSETS	<u>\$ 183,228</u>	<u>\$ 236,260</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 34,033	\$ 29,731
Accrued expenses	31,599	9,356
Obligation under line of credit - Note 7	101,135	68,671
Notes payable - related parties - Note 7	<u>28,932</u>	<u>28,560</u>
TOTAL LIABILITIES	<u>195,699</u>	<u>136,318</u>
<u>NET ASSETS</u>		
Unrestricted	(94,615)	11,221
Temporarily restricted - Note 5	<u>82,144</u>	<u>88,721</u>
TOTAL NET ASSETS	<u>(12,471)</u>	<u>99,942</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 183,228</u>	<u>\$ 236,260</u>

The accompanying notes are an integral part of these financial statements.

HIGH HOPES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	2005			2004		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUE						
Contributions:						
United Way	\$ 6,708	\$ -	\$ 6,708	\$ 9,590	\$ -	\$ 9,590
Other	83,835	67,550	151,385	97,855	94,821	192,676
Therapy fees, net	297,592	-	297,592	432,022	-	432,022
Tuition and fees	217,492	-	217,492	177,098	-	177,098
Special events	149,253	-	149,253	157,500	-	157,500
Less: donor direct benefits	(15,818)	-	(15,818)	(33,877)	-	(33,877)
Investment loss, net	230	-	230	150	-	150
Net assets released from restrictions	74,127	(74,127)	-	6,100	(6,100)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>813,419</b>	<b>(6,577)</b>	<b>806,842</b>	<b>846,438</b>	<b>88,721</b>	<b>935,159</b>
EXPENSES						
Program services	702,711	-	702,711	676,921	-	676,921
Management and general	131,381	-	131,381	101,369	-	101,369
Fundraising	85,163	-	85,163	61,369	-	61,369
<b>TOTAL EXPENSES</b>	<b>919,255</b>	<b>-</b>	<b>919,255</b>	<b>839,659</b>	<b>-</b>	<b>839,659</b>
<b>CHANGE IN NET ASSETS</b>	<b>(105,836)</b>	<b>(6,577)</b>	<b>(112,413)</b>	<b>6,779</b>	<b>88,721</b>	<b>95,500</b>
NET ASSETS:						
Beginning of year	11,221	88,721	99,942	4,442	-	4,442
End of year	<u>\$ (94,615)</u>	<u>\$ 82,144</u>	<u>\$ (12,471)</u>	<u>\$ 11,221</u>	<u>\$ 88,721</u>	<u>\$ 99,942</u>

The accompanying notes are an integral part of these financial statements.

HIGH HOPES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	<u>\$ (112,413)</u>	<u>\$ 95,500</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,156	10,284
Noncash contribution	-	(1,159)
(Increase) decrease in:		
Accounts receivable, net	60,681	(29,368)
Contributions receivable	20,385	(73,385)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>26,545</u>	<u>(13,905)</u>
TOTAL ADJUSTMENTS	<u>116,767</u>	<u>(107,533)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>4,354</u>	<u>(12,033)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(5,672)	(1,647)
Deposit on new telephone system	<u>(6,475)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(12,147)</u>	<u>(1,647)</u>
FINANCING ACTIVITIES		
Net (borrowing) repayment on revolving lines of credit	32,464	(1,606)
Net borrowings from related parties	<u>372</u>	<u>22,560</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>32,836</u>	<u>20,954</u>
INCREASE IN CASH AND CASH EQUIVALENTS	25,043	7,274
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>12,844</u>	<u>5,570</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 37,887</u>	<u>\$ 12,844</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 5,995</u>	<u>\$ 3,293</u>

The accompanying notes are an integral part of these financial statements.

HIGH HOPES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2005

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Education</u>	<u>Therapy</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries	\$ 230,386	\$ 197,473	\$ 427,859	\$ 76,795	\$ 43,883	\$ 120,678	\$ 548,537
Payroll taxes	17,905	15,348	33,253	5,968	3,411	9,379	42,632
Employee benefits	24,181	20,727	44,908	8,060	4,606	12,666	57,574
Total Salaries and Related Expenses	272,472	233,548	506,020	90,823	51,900	142,723	648,743
Advertising	194	167	361	102	-	102	463
Contracted services	3,425	25,889	29,314	720	-	720	30,034
Depreciation	3,846	3,296	7,142	1,282	732	2,014	9,156
Equipment maintenance	2,700	2,314	5,014	900	514	1,414	6,428
Insurance	4,398	3,770	8,168	1,466	838	2,304	10,472
Interest	-	-	-	5,995	-	5,995	5,995
Occupancy	24,749	21,214	45,963	8,250	4,714	12,964	58,927
Other	6,133	5,257	11,390	2,044	1,165	3,209	14,599
Postage	-	-	-	1,129	1,129	2,258	2,258
Professional fees	36,540	31,320	67,860	12,179	6,960	19,139	86,999
Other special events costs	-	-	-	-	15,818	15,818	15,818
Supplies	(10)	6,803	6,793	3,727	15,833	19,560	26,353
Telephone	3,538	3,033	6,571	1,179	674	1,853	8,424
Travel	680	583	1,263	356	-	356	1,619
Utilities	3,689	3,162	6,851	1,229	703	1,932	8,783
Total Expenses	362,354	340,357	702,711	131,381	100,981	232,362	935,073
Less expenses included with revenues on the statement of activities - direct donor benefits	-	-	-	-	(15,818)	(15,818)	(15,818)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	<u>\$ 362,354</u>	<u>\$ 340,357</u>	<u>\$ 702,711</u>	<u>\$ 131,381</u>	<u>\$ 85,163</u>	<u>\$ 216,544</u>	<u>\$ 919,255</u>

The accompanying notes are an integral part of these financial statements.

HIGH HOPES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2004

	Program Services			Supporting Services			Total Expenses
	Education	Therapy	Total	Management and General	Fundraising	Total	
Salaries	\$ 216,879	\$ 216,879	\$ 433,758	\$ 58,187	\$ 37,028	\$ 95,215	\$ 528,973
Payroll taxes	18,947	18,947	37,894	5,083	3,235	8,318	46,212
Employee benefits	19,635	19,635	39,270	5,268	3,352	8,620	47,890
Total Salaries and Related Expenses	255,461	255,461	510,922	68,538	43,615	112,153	623,075
Advertising	468	468	936	205	-	205	1,141
Contracted services	7,938	7,939	15,877	3,485	-	3,485	19,362
Depreciation	4,216	4,216	8,432	1,131	720	1,851	10,283
Equipment maintenance	2,163	2,163	4,326	580	369	949	5,275
Insurance	5,401	5,402	10,803	1,449	922	2,371	13,174
Interest	-	-	-	4,116	-	4,116	4,116
Occupancy	22,879	22,879	45,758	6,138	3,906	10,044	55,802
Other	3,626	3,626	7,252	973	619	1,592	8,844
Postage	976	976	1,952	262	1,792	2,054	4,006
Professional fees	23,488	23,488	46,976	6,302	4,010	10,312	57,288
Other special events costs	-	-	-	-	33,877	33,877	33,877
Supplies	1,926	7,943	9,869	6,287	4,286	10,573	20,442
Telephone	3,214	3,214	6,428	862	549	1,411	7,839
Travel	294	294	588	129	-	129	717
Utilities	3,401	3,401	6,802	912	581	1,493	8,295
Total Expenses	335,451	341,470	676,921	101,369	95,246	196,615	873,536
Less expenses included with revenues on the statement of activities - direct donor benefits	-	-	-	-	(33,877)	(33,877)	(33,877)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF THE STATEMENT OF ACTIVITIES	<u>\$ 335,451</u>	<u>\$ 341,470</u>	<u>\$ 676,921</u>	<u>\$ 101,369</u>	<u>\$ 61,369</u>	<u>\$ 162,738</u>	<u>\$ 839,659</u>

The accompanying notes are an integral part of these financial statements.

HIGH HOPES, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2005 AND 2004

NOTE 1 - ORGANIZATION AND GENERAL

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of the Organization have been 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 support, 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 increase those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose 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

Cash and cash equivalents consist of demand deposits maintained at a financial institution.

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. At August 31, 2005, all contributions receivable were due within one year.

An allowance for uncollectible contributions has not been provided at August 31, 2005 or 2004, based on management's estimate that the balance is fully collectible.

HIGH HOPES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AUGUST 31, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated goods and services

Donated facilities, materials and services are recorded as gifts in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization receives the benefit of contributed time from volunteers which does not meet this recognition criteria. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements.

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 equipment

Property and equipment are recorded at cost at the date of purchase or if donated, at fair value as of the date of the gift. Costs of maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method to allocate the cost of depreciable assets over estimated useful lives ranging from five to ten years.

Income taxes

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.



HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services

The following program and supporting services are included in the accompanying financial statements:

Program services - include 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.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of estimates in the preparation of the financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2005 AND 2004

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable are from third-party payors and patients and are reported net of estimated contractual adjustments. Third-party payors consist primarily of commercial insurance carriers. As of August 31, 2005, approximately 63 % of accounts receivable were from third-party payors (75 % in 2004), and 37 % were due from patients (25 % in 2004). Accounts receivable consist of the following at August 31:

	<u>2005</u>	<u>2004</u>
Accounts receivable for tuition and therapy services	\$ 47,089	\$ 124,857
Less allowance for contractual adjustments	<u>(12,676)</u>	<u>(29,763)</u>
Accounts receivable, net	<u>\$ 34,413</u>	<u>\$ 95,094</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of August 31:

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 45,694	\$ 45,496
Playground equipment	5,420	5,420
Leasehold improvements	<u>50,230</u>	<u>50,230</u>
	101,344	101,146
Less: accumulated depreciation	<u>(54,141)</u>	<u>(50,459)</u>
	<u>\$ 47,203</u>	<u>\$ 50,687</u>

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2005 AND 2004

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended August 31, 2005, were as follows:

	<u>Beginning of Year</u>	<u>Restricted Contributions</u>	<u>Released from Restriction</u>	<u>End of Year</u>
Tuition	\$ 1,207	\$ -	\$ 1,207	\$ -
Asset purchases for the new location	-	37,540	9,634	27,906
Educational consultants	10,000	-	10,000	-
Frist Foundation - technology grant	4,129	-	2,891	1,238
Contributions receivable - time restriction	<u>73,385</u>	<u>30,010</u>	<u>50,395</u>	<u>53,000</u>
	<u>\$ 88,721</u>	<u>\$ 67,550</u>	<u>\$ 74,127</u>	<u>\$ 82,144</u>

Changes in temporarily restricted net assets for the year ended August 31, 2004, were as follows:

	<u>Beginning of Year</u>	<u>Restricted Contributions</u>	<u>Released from Restriction</u>	<u>End of Year</u>
Tuition	\$ -	\$ 2,661	\$ 1,454	\$ 1,207
Medical expense	-	3,000	3,000	-
Educational consultants	-	10,000	-	10,000
Frist Foundation - technology grant	-	5,775	1,646	4,129
Contributions receivable - time restriction	<u>-</u>	<u>73,385</u>	<u>-</u>	<u>73,385</u>
	<u>\$ -</u>	<u>\$ 94,821</u>	<u>\$ 6,100</u>	<u>\$ 88,721</u>

NOTE 6 - EMPLOYEE BENEFITS

The Organization has a medical insurance plan for all full-time employees. The cost of this plan for the years ended August 31, 2005 and 2004, amounted to \$54,187 and \$44,963, respectively. The Organization also sponsors a simple IRA retirement plan for its employees. The Organization did not contribute to the plan during the 2005 or 2004 fiscal years.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2005 AND 2004

NOTE 7 - NOTES PAYABLE

The Organization has a maximum \$75,000 line of credit under an agreement with a financial institution, which is secured by substantially all assets of the Organization. The outstanding balance on the line of credit was \$62,315 and \$68,671 as of August 31, 2005 and 2004, respectively. The agreement required monthly payments of interest only through June 2004, then monthly principal and interest payments of \$1,000 through June 2005. Subsequent to June 2005, the Organization has a verbal understanding with the financial institution for the Organization to continue the \$1,000 monthly principal and interest payments until the line is repaid. The line of credit bears interest at 12% at August 31, 2005.

During 2005, the Organization obtained an additional line of credit with a maximum balance of \$50,000 with a financial institution, which is secured by the tangible property of the Organization. This obligation is payable on demand. The outstanding balance on the line was \$38,820 as of August 31, 2005. The agreement requires monthly interest payments on the outstanding balance at the bank's prime rate (6.5% at August 31, 2005.)

The former executive director made non-interest and interest bearing loans to the Organization during 2004 and 2005. These interest bearing loans in the amount of \$30,000 bear interest at the rate of 12 percent per annum, and were payable on demand. The outstanding balance on these loans was \$28,932 and \$28,560 at August 31, 2005 and 2004, respectively. As of December 31, 2005, the Organization was notified that the principle and accrued interest on these loans in the amount of \$26,564 was forgiven and accordingly will be reported as contribution income in 2006. The remaining outstanding balance was repaid in March 2006.

NOTE 8 - OPERATING LEASE COMMITMENT

The Organization leases its facility in Brentwood, Tennessee, under an operating lease. The lease expired June 30, 2005, at which time the Agency continued to lease the facility on a month-to-month basis by verbal agreement. Total lease expense for the year ended August 31, 2005 and 2004 was \$54,757 and \$48,993, respectively.

On December 5, 2005, the Organization entered a five-year lease agreement, effective March 1, 2005. The Organization relocated its preschool and rehabilitation center to a new facility in March 2006 located on Mallory Lane in Brentwood, Tennessee. Future minimum lease commitments under this new lease agreement of March 1, 2006 were \$60,804 for 2006; \$130,770 for 2007; \$141,834 for 2008; \$145,638 for 2009; \$149,442 for 2010; and \$75,672 in 2011.