

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

For the Years Ended August 31, 2006 and 2005

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

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, 2006, and the related statement of activities, functional expenses, and cash flows for the year 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. The financial statements of High Hopes, Inc. as of August 31, 2005 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 12, 2006.

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 financial statements referred to above present fairly, in all material respects, the financial position of High Hopes, Inc. as of August 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

S R Brown, CPA

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

High Hopes, Inc.
Statements of Financial Position
As of August 31, 2006 and 2005

	<u>August 31, 2006</u>	<u>August 31, 2005</u>
Assets		
Current assets		
Cash and cash equivalents.....	\$ 20,068	\$ 37,887
Accounts receivable, net	98,316	34,413
Contributions receivable	-	53,000
Deposits and other current assets	10,134	10,725
Total current assets.....	<u>128,518</u>	<u>136,025</u>
 Property and equipment, net	 72,111	 47,203
Total assets	<u>\$ 200,629</u>	<u>\$ 183,228</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 32,800	\$ 34,033
Accrued expenses.....	30,896	31,599
Obligations under line of credit.....	2,116	101,135
Notes payable – related parties	-	28,932
Total current liabilities	<u>65,812</u>	<u>195,699</u>
Net assets		
Unrestricted	133,154	(94,615)
Temporarily restricted	1,663	82,144
Total net assets	<u>134,817</u>	<u>(12,471)</u>
Total liabilities and net assets.....	<u>\$ 200,629</u>	<u>\$ 183,228</u>

See accompanying notes.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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	<u>115,802</u>	<u>(115,802)</u>	<u>-</u>
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	<u>72,550</u>	<u>-</u>	<u>72,550</u>
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 Activities
For the Year Ended August 31, 2005

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions:			
United Way	\$ 6,708	\$ -	\$ 6,708
Other	83,835	67,550	151,385
Therapy fees, net.....	297,592	-	297,592
Tuition and fees	217,492	-	217,492
Special events	149,253	-	149,253
Less: donor direct benefit costs	(15,818)	-	(15,818)
Investment loss, net	230	-	230
Net assets released from restrictions	74,127	(74,127)	-
Total support and revenue	<u>813,419</u>	<u>(6,577)</u>	<u>806,842</u>
Expenses			
Program services.....	702,711	-	702,711
Management and general	131,381	-	131,381
Fundraising	85,163	-	85,163
Total expenses.....	<u>919,255</u>	<u>-</u>	<u>919,255</u>
Change in net assets	(105,836)	(6,577)	(112,413)
Net assets at beginning of year	11,221	88,721	99,942
Net assets at end of year	<u>\$ (94,615)</u>	<u>\$ 82,144</u>	<u>\$ (12,471)</u>

See accompanying notes.

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

	<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	\$ 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	287	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>\$ 250,997</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.
Statement of Functional Expenses
For the Year Ended August 31, 2005

	Program Services			Supporting Services			
	Education	Therapy	Total Program Services	Management and General	Fundraising	Total Support Services	Total Functional Expenses
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
Contractual 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 event 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 activities – donor direct benefit costs	-	-	-	-	(15,818)	(15,818)	(15,818)
Total expenses included in the 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>

See accompanying notes.

High Hopes, Inc.
Statements of Cash Flows
For the Years Ended August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 147,288	\$ (112,413)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,137	9,156
Loss on disposal of assets	35,985	-
Donated property and equipment	(31,092)	-
Debt forgiveness	(58,667)	-
Increase (decrease) in accounts receivable, net	(63,903)	60,681
Decrease in contributions receivable	53,000	20,385
Decrease in other current assets	591	-
Decrease (increase) in accounts payable and accrued expenses ..	(1,936)	26,545
Net cash provided by operating activities	<u>93,403</u>	<u>4,354</u>
Cash flows from investing activities:		
Purchases of property and equipment	(41,938)	(5,672)
Deposit on new phone system	-	(6,475)
Net cash used in investing activities	<u>(41,938)</u>	<u>(12,147)</u>
Cash flows from financing activities:		
Net (repayments) borrowings on revolving lines of credit	(66,916)	32,464
Net (repayments) borrowings from related parties	(2,368)	372
Net cash (used in) provided by financing activities	<u>(69,284)</u>	<u>32,836</u>
Net (decrease) increase in cash and cash equivalents	(17,819)	25,043
Cash and cash equivalents, at beginning of period	37,887	12,844
Cash and cash equivalents, at end of period	<u>\$ 20,068</u>	<u>\$ 37,877</u>
Supplemental disclosure of cash flows information:		
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, 2006 and 2005

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. As of August 31, 2005, all contributions receivable were due within one year. No contributions receivable were due as of August 31, 2006.

An allowance for uncollectible contributions was not provided for as of August 31, 2005 based on management's estimate that the balance was fully collectible.

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

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2006 and 2005

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 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.

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2006 and 2005

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 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, 2006 and 2005, accounts receivable consisted of the following:

	<u>2006</u>	<u>2005</u>
Accounts receivable from tuition and therapy services	\$ 115,996	\$ 47,089
Less allowance for contractual adjustments and allowances for bad debts.....	<u>(17,680)</u>	<u>(12,676)</u>
Account receivable, net	<u>\$ 98,316</u>	<u>\$ 34,413</u>

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2006 and 2005

3. Property and Equipment

Property and equipment consisted of the following as of August 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Furniture and equipment.....	\$ 84,366	\$ 45,694
Playground equipment.....	12,966	5,420
Leasehold improvements.....	10,968	50,230
	<u>108,300</u>	<u>101,344</u>
Less: accumulated depreciation....	<u>(36,189)</u>	<u>(54,141)</u>
Property and equipment, net.....	<u>\$ 72,111</u>	<u>\$ 47,203</u>

4. Temporarily Restricted Net Assets

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>

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	73,385	30,010	(50,395)	53,000
	<u>\$ 88,721</u>	<u>\$ 67,550</u>	<u>\$ (74,127)</u>	<u>\$ 82,144</u>

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, 2006 and 2005 were \$57,397 and \$54,187, 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 outstanding balance on the line of credit was \$62,315 as of August 31, 2005. 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% and 6.50% as of August 31, 2006 and 2005, respectively. The outstanding balance on the line of credit was \$2,116 and \$38,820 as of August 31, 2006 and 2005, 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. The outstanding balance on these loans was \$28,932 as of August 31, 2005. Subsequent to August 31, 2005, 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 and \$54,757 for the year ended August 31, 2006 and 2005, respectively.

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2006 and 2005

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. Lease expense for the new facility was \$54,002 for the year ended August 31, 2006. Future minimum lease commitments under this new lease agreement are as follows:

2007	\$ 130,770
2008	141,834
2009	145,638
2010	149,442
2011	75,672
Thereafter.....	-
	<u>\$ 643,356</u>