

HIGH HOPES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

For the Years Ended August 31, 2008 and 2007

HIGH HOPES, INC.
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Independent Auditors' 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) (the "Organization") as of August 31, 2008 and 2007, 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, 2008 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.

Brown & Maguire CPAs, PLLC

Brown & Maguire CPAs, PLLC
Nashville, Tennessee
January 16, 2009

High Hopes, Inc.
Statements of Financial Position
As of August 31, 2008 and 2007

	<u>August 31, 2008</u>	<u>August 31, 2007</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 10,027	\$ 24,846
Accounts receivable, net	115,597	110,739
Total current assets.....	<u>125,624</u>	<u>135,585</u>
Property and equipment, net	<u>137,732</u>	<u>150,397</u>
Total assets.....	<u><u>\$ 263,356</u></u>	<u><u>\$ 285,982</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 17,258	\$ 59,166
Accrued expenses	12,495	24,722
Obligations under line of credit	89,440	49,976
Total current liabilities	<u>119,193</u>	<u>133,864</u>
Net assets		
Unrestricted.....	143,643	137,156
Temporarily restricted.....	520	14,962
Total net assets	<u>144,163</u>	<u>152,118</u>
Total liabilities and net assets	<u><u>\$ 263,356</u></u>	<u><u>\$ 285,982</u></u>

See accompanying notes.

High Hopes, Inc.
Statement of Activities
For the Year Ended August 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions:			
United Way.....	\$ 1,677	\$ -	\$ 1,677
Other.....	232,328	34,050	266,378
Therapy fees, net	483,447	-	483,447
Tuition and fees.....	558,764	-	558,764
Special events.....	199,705	-	199,705
Less: donor direct benefit costs	(42,448)	-	(42,448)
In-kind contributions	23,616	-	23,616
Other income.....	3,373	-	3,373
Net assets released from restrictions	48,492	(48,492)	-
Total support and revenue.....	<u>1,508,954</u>	<u>(14,442)</u>	<u>1,494,512</u>
Expenses			
Program services	1,272,184	-	1,272,184
Management and general	165,364	-	165,364
Fundraising.....	64,919	-	64,919
Total expenses	<u>1,502,467</u>	<u>-</u>	<u>1,502,467</u>
Change in net assets.....	6,487	(14,442)	(7,955)
Net assets at beginning of year	137,156	14,962	152,118
Net assets at end of year.....	<u>\$ 143,643</u>	<u>\$ 520</u>	<u>\$ 144,163</u>

See accompanying notes.

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

	Unrestricted	Temporarily Restricted	Total
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 Functional Expenses
For the Year Ended August 31, 2008

	<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	\$ 432,993	\$ 344,359	\$ 777,352	\$ 100,385	\$ 42,012	\$ 142,397	\$ 919,749
Payroll taxes	33,892	26,955	60,847	7,858	3,288	11,146	71,993
Employee benefits	24,042	19,121	43,163	5,574	2,333	7,907	51,070
Total salaries and related expenses	490,927	390,435	881,362	113,817	47,633	161,450	1,042,812
Advertising	5,971	4,749	10,720	1,385	579	1,964	12,684
Contractual services	5,079	24,287	29,366	4,860	-	4,860	34,226
Depreciation	13,994	11,130	25,124	3,244	1,358	4,602	29,726
Equipment maintenance	5,797	4,611	10,408	1,344	563	1,907	12,315
Insurance	5,602	4,456	10,058	1,299	544	1,843	11,901
Interest	2,076	1,650	3,726	481	201	682	4,408
Occupancy	112,877	89,771	202,648	26,170	10,952	37,122	239,770
Other	7,477	5,947	13,424	1,733	726	2,459	15,883
Postage	959	762	1,721	222	93	315	2,036
Professional fees	5,798	4,610	10,408	1,344	562	1,906	12,314
Special event costs	-	-	-	-	42,448	42,448	42,448
Bad debts	3,677	2,924	6,601	-	-	-	6,601
Printing	3,901	3,103	7,004	904	379	1,283	8,287
In-kind contributions	9,353	7,439	16,792	2,168	908	3,076	19,868
Supplies	15,722	17,497	33,219	5,336	-	5,336	38,555
Telephone	4,342	3,452	7,794	1,006	421	1,427	9,221
Training	660	1,149	1,809	51	-	51	1,860
Total expenses	694,212	577,972	1,272,184	165,364	107,367	272,731	1,544,915
Less expenses included with revenues on the statement activities – donor direct benefit costs	-	-	-	-	(42,448)	(42,448)	(42,448)
Total expenses included in the expense section of the statement of activities	<u>\$ 694,212</u>	<u>\$ 577,972</u>	<u>\$ 1,272,184</u>	<u>\$ 165,364</u>	<u>\$ 64,919</u>	<u>\$ 230,283</u>	<u>\$ 1,502,467</u>

See accompanying notes.

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

	Program Services			Supporting Services			
	Education	Therapy	Total Program Services	Management and General	Fundraising	Total Support Services	Total Functional Expenses
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.
Statements of Cash Flows
For the Years Ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (7,955)	\$ 17,301
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation.....	29,726	22,281
Donated property and equipment	(3,300)	(10,100)
Increase in accounts receivable, net.....	(4,858)	(12,423)
(Decrease) increase in accounts payable and accrued expenses..	(54,135)	20,192
Net cash (used in) provided by operating activities	<u>(40,522)</u>	<u>47,385</u>
 Cash flows from investing activities:		
Purchases of property and equipment.....	<u>(13,761)</u>	<u>(90,467)</u>
Net cash used in investing activities	<u>(13,761)</u>	<u>(90,467)</u>
 Cash flows from financing activities:		
Net borrowings on revolving lines of credit	<u>39,464</u>	<u>47,860</u>
Net cash provided by financing activities	<u>39,464</u>	<u>47,860</u>
 Net (decrease) increase in cash and cash equivalents	(14,819)	4,778
Cash and cash equivalents, at beginning of period	<u>24,846</u>	<u>20,068</u>
Cash and cash equivalents, at end of period	<u>\$ 10,027</u>	<u>\$ 24,846</u>
 Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 4,408</u>	<u>\$ 2,920</u>
 Income taxes paid.....	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2008 and 2007

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, 2008 and 2007.

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, 2008 and 2007

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. Advertising costs were \$12,684 and \$3,913 for the years ended August 31, 2008 and 2007, respectively.

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

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2008 and 2007

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, 2008 and 2007, accounts receivable consisted of the following:

	<u>2008</u>	<u>2007</u>
Accounts receivable from tuition and therapy services	\$ 130,297	\$ 124,696
Less allowance for contractual adjustments and allowances for bad debts	<u>(14,700)</u>	<u>(13,957)</u>
Account receivable, net	<u>\$ 115,597</u>	<u>\$ 110,739</u>

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2008 and 2007

3. Property and Equipment

Property and equipment consisted of the following as of August 31, 2008 and 2007:

	2008	2007
Furniture and equipment.....	\$ 128,030	\$ 123,575
Playground equipment.....	12,966	12,966
Leasehold improvements	85,475	72,326
	226,471	208,867
Less: accumulated depreciation....	(88,739)	(58,470)
Property and equipment, net.....	\$ 137,732	\$ 150,397

4. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for the year ended August 31, 2008 were as follows:

	Beginning of Year	Restricted Contributions	Released from Restriction	End of Year
Facility expansion	\$ 3,949	\$ 25,000	\$ (28,949)	\$ -
Programs	5,107	2,500	(7,607)	-
Equipment	156	6,550	(6,186)	520
Video	5,500	-	(5,500)	-
Other	250	-	(250)	-
	\$ 14,962	\$ 34,050	\$ (48,492)	\$ 520

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

	Beginning of Year	Restricted Contributions	Released from Restriction	End of Year
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	1,663	3,118	(4,531)	250
	\$ 1,663	\$ 88,197	\$ (74,898)	\$ 14,962

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, 2008 and 2007 were \$53,927 and \$61,390, respectively.

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2008 and 2007

6. Notes Payable

During 2005, the Organization obtained a line of credit from SunTrust 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. The interest rate was 5.00% and 8.25% as of August 31, 2008 and 2007, respectively. The outstanding balance on the line of credit was \$39,440 and \$49,976 as of August 31, 2008 and 2007, respectively.

During August 2007, the Organization obtained a second line of credit from Tennessee Commerce Bank 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. The interest rate was 6.00% as of August 31, 2008. The outstanding balance on the line of credit was \$50,000 as of August 31, 2008. The line of credit was subsequently paid off in full during September 2008.

7. Operating Lease Commitments

On December 5, 2005, the Organization entered into a five-year lease agreement, effective March 1, 2006, for its current facility located on Mallory Lane in Brentwood, Tennessee. 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 \$239,770 and \$130,770 for the year ended August 31, 2008 and 2007, respectively. Future minimum lease commitments under these lease agreements are as follows:

2009	\$	247,938
2010		254,838
2011		184,176
2012		111,600
2013		-
Thereafter.....		-
	\$	<u>798,552</u>