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Stickel, C.P.A.

Lisa Mays Stickel
Certified Public Accountant

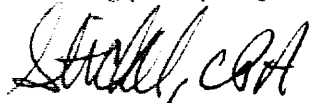
INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying statements of financial position of Community Child Care Services, Inc. (a nonprofit corporation) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Child Care Services, Inc. as of June 30, 2006 and 2005, 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.



White House, Tennessee
November 20, 2006

COMMUNITY CHILD CARE SERVICES, INC.

Statements of Financial Position

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash	\$ 41,894	\$ 83,325
Cash restricted for construction in progress	-	23,821
Employee advances	120	-
Accounts receivable - fees	7,305	-
Accounts receivable - other	1,626	789
Grants and contributions receivable	10,680	8,370
Prepaid insurance	<u>7,392</u>	<u>4,283</u>
Total current assets	69,017	120,588
Property and equipment, net	810,239	610,255
Other assets		
Restricted cash	<u>-</u>	<u>323</u>
Total assets	<u><u>\$ 879,256</u></u>	<u><u>\$ 731,166</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 5,453	\$ 46,447
Retainage payable	-	12,285
Accrued payroll	3,829	2,918
Payroll withholdings payable	214	2,526
Current portion of long-term debt	<u>3,434</u>	<u>-</u>
Total current liabilities	12,930	64,176
Long-term liabilities		
Note payable to First State Bank	<u>129,093</u>	<u>-</u>
Total liabilities	<u>142,023</u>	<u>64,176</u>
Net assets		
Unrestricted net assets		
Board designated	-	24,144
Other unrestricted	<u>737,233</u>	<u>642,846</u>
Total unrestricted net assets	<u>737,233</u>	<u>666,990</u>
Total liabilities and net assets	<u><u>\$ 879,256</u></u>	<u><u>\$ 731,166</u></u>

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.**Statements of Activities****Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Unrestricted net assets		
Public support and revenues		
Fees - net of discounts, refunds and returned checks	\$ 299,317	\$ 202,715
Government grants	219,088	187,512
Contributions	33,401	35,480
United Way	42,600	32,500
The Memorial Foundation grant	75,000	-
The HCA Foundation grant	-	20,000
The Community Foundation grant	2,500	-
Wal-Mart grant	3,000	-
Contributed services	8,495	11,634
Interest income	351	1,405
Net assets released from restrictions		
Expiration of time restriction on The Memorial Foundation grant	-	25,000
Total unrestricted public support and revenues	<u>683,752</u>	<u>516,246</u>
Expenses		
Program services	474,333	331,751
Management and general	118,341	98,796
Fundraising	20,835	14,579
Total expenses	<u>613,509</u>	<u>445,126</u>
Increase in unrestricted net assets	<u>70,243</u>	<u>71,120</u>
Temporarily restricted net assets		
Net assets released from restrictions		
Expiration of time restriction on The Memorial Foundation grant	-	(25,000)
Decrease in temporarily restricted net assets	<u>-</u>	<u>(25,000)</u>
Total increase in net assets	<u>70,243</u>	<u>46,120</u>
Net assets at beginning of year	<u>666,990</u>	<u>620,870</u>
Net assets at end of year	<u>\$ 737,233</u>	<u>\$ 666,990</u>

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Functional Expenses
Years Ended June 30, 2006 and 2005

	2006				2005			
	Supporting Services				Supporting Services			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Salaries and wages	\$319,050	\$63,809	\$15,952	\$398,811	\$234,700	\$46,939	\$11,734	\$ 293,373
Payroll taxes	25,326	5,065	1,266	31,657	18,257	3,651	912	22,820
Employee benefits	18,939	3,787	946	23,672	9,111	1,822	455	11,388
Food	43,632	-	-	43,632	29,796	-	-	29,796
Insurance	6,318	2,707	-	9,025	5,731	2,455	-	8,186
Supplies	8,671	7,689	-	16,360	5,352	4,746	-	10,098
Staff training	1,127	-	-	1,127	32	-	-	32
Bank charges	-	15	-	15	-	40	-	40
Housekeeping	6,660	740	-	7,400	4,230	470	-	4,700
Accounting	-	3,398	-	3,398	-	14,720	-	14,720
Professional fees	-	9,400	-	9,400	-	4,000	-	4,000
Advertising	-	975	-	975	-	95	-	95
Contributions	-	-	-	-	311	-	-	311
Dues and subscriptions	-	477	-	477	-	883	-	883
Interest expense	5,272	620	310	6,202	-	-	-	-
Miscellaneous	-	1,034	-	1,034	-	1,233	-	1,233
Loss on disposal of equipment	-	-	-	-	-	203	-	203
Office supplies	-	2,643	-	2,643	-	1,939	-	1,939
Flowers and gifts	-	2,093	-	2,093	-	1,795	-	1,795
Postage	-	223	-	223	-	121	-	121
Repairs and maintenance	-	7,083	-	7,083	-	8,680	-	8,680
Sanitation	1,651	194	97	1,942	-	-	-	-
Security System	386	46	23	454	-	-	-	-
Seminars and conferences	-	-	-	-	-	325	-	325
Storage	-	190	-	190	-	261	-	261
Utilities	14,463	1,701	850	17,015	9,411	1,107	553	11,071
Taxes and licenses	-	820	-	820	-	123	-	123
Telephone	1,178	1,059	117	2,354	1,321	1,188	132	2,641
Travel	-	25	-	25	-	413	-	413
Totals before depreciation	452,673	115,793	19,561	588,027	318,252	\$97,209	13,786	429,247
Depreciation	21,660	2,548	1,274	25,482	13,499	1,587	793	15,879
Total expenses	<u>\$474,333</u>	<u>\$ 118,341</u>	<u>\$ 20,835</u>	<u>\$613,509</u>	<u>\$331,751</u>	<u>\$ 98,796</u>	<u>\$ 14,579</u>	<u>\$ 445,126</u>

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Increase in net assets	\$ 70,243	\$ 46,120
Adjustments to reconcile increase in net assets to net cash (used) provided by operating activities:		
Depreciation	25,482	15,879
Contributions of property and equipment	(3,595)	(500)
Loss on disposal of equipment	-	203
(Increase) decrease in:		
Employee advances	(120)	-
Accounts receivable - fees and other	(8,931)	(789)
Grants and contribution receivable	(2,310)	24,378
Prepaid insurance	(3,109)	(692)
Increase (decrease) in:		
Accounts and retainage payable	4,229	31
Accrued payroll and payroll taxes and withholdings payable	(1,401)	(5,761)
Contributions restricted for new building addition and start up costs	(88,287)	(43,630)
Net cash (used) provided by operating activities	<u>(7,799)</u>	<u>35,239</u>
Cash flows from investing activities		
Cash payments for the purchase of property	(278,590)	(117,313)
Net cash used by investing activities	<u>(278,590)</u>	<u>(117,313)</u>
Cash flows from financing activities		
Proceeds from issuance of note payable to First State Bank	136,770	-
Principal payments on note payable to First State Bank	(4,243)	-
Collections of contributions restricted for building addition and start up costs	88,287	43,630
Net cash provided by financing activities	<u>220,814</u>	<u>43,630</u>
Net decrease in cash	(65,575)	(38,444)
Cash and restricted cash at beginning of year	<u>107,469</u>	<u>145,913</u>
Cash and restricted cash at end of year	<u>\$ 41,894</u>	<u>\$ 107,469</u>

Supplemental disclosures - See Note 8

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.

Notes to Financial Statements Years Ended June 30, 2006 and 2005

Note 1. Nature of Activities and Significant Accounting Policies

Organization and Nature of Activities

Community Child Care Services, Inc. (the "Organization") 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. The Organization's mission is to operate a quality child care center for children from low income homes who need care and supervision for part of the day, to facilitate employment of the parents, and to do all things reasonable, incidental, and necessary to accomplish the foregoing, including solicitation of funds or property upon such terms and conditions as to meet, if possible, the expense thereof, but without making a profit there from, and with such care extended to children of all races and religions in a non-discriminatory manner. Contributions and grants are received primarily from donors or government agencies located in the Middle Tennessee region.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash includes all monies in banks. This also includes cash restricted by the Board of Directors. The Organization had no cash equivalents for the years ended June 30, 2006 and 2005.

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
Years Ended June 30, 2006 and 2005

Note 1. Nature of Activities and Significant Accounting Policies - Continued

Property and Equipment

The Organization does not have a formal capitalization policy. Generally, the Organization capitalizes property and equipment acquisitions in excess of \$100 with an estimated useful life in excess of one year. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which range from 5 to 40 years.

The Organization was in the process of adding additional space to the building and renovation at June 30, 2005. These expenditures are reported as construction in progress and are not depreciated for the year ended June 30, 2005. All work was completed during the year ended June 30, 2006.

Public Support and Revenues

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Contributions of donated noncash assets are recorded at their fair values in the period received. 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.

Functional Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program, supporting services benefited and fundraising efforts by the Organization.

Income Taxes

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
Years Ended June 30, 2006 and 2005

Note 1. Nature of Activities and Significant Accounting Policies - Continued

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expense was \$975 and \$95 for the years ended June 30, 2006 and 2005, respectively.

Note 2. Accounts, Grants and Contributions Receivable

The accounts receivable-fees and other, grants and contributions receivable are receivable in less than one year. The balances were collected in full subsequent to the year ends at June 30, 2006 and 2005. Therefore management has not established an allowance account.

Note 3. Property and Equipment

The components of property and equipment as of June 30, 2006 and 2005 are as follows:

	2006	2005
Land	\$ 80,000	\$ 80,000
Building	761,940	388,189
Equipment	53,010	44,909
Furniture and fixtures	27,290	18,352
Software	350	-
Construction in progress	-	165,676
	922,590	697,126
Less: accumulated depreciation	(112,351)	(86,871)
Total property and equipment, net	\$ 810,239	\$ 610,255

Depreciation expense for the years ended June 30, 2006 and 2005 was \$25,482 and \$15,879, respectively. Furniture and fixtures at June 30, 2005 includes a deposit of \$7,500 on new furniture. Since the furniture had not been received and placed in service at June 30, 2005, no depreciation has been taken on the deposit.

Note 4. Concentrations

The Organization is economically dependent on grants from the State of Tennessee. During the years ended June 30, 2006 and 2005, the Organization received 30% and 34% of total public support and revenues from the State of Tennessee Child Care Assistance Program and the State of Tennessee Child Care Food Program. The Organization received 11% and 0% of total revenue from The Memorial Foundation for the years ended June 30, 2006 and 2005, respectively. The Organization receives fees from parents living in the Middle Tennessee

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
Years Ended June 30, 2006 and 2005

Note 4. Concentrations - Continued

region. The fees accounted for 44% and 39% of total public support and revenues for the years ended June 30, 2006 and 2005, respectively.

Note 5. Net Assets and Restricted Cash

The Board of Directors has self-imposed restricted net assets for the following purposes as of June 30, 2006 and 2005. Cash has also been restricted for these amounts.

	<u>2006</u>	<u>2005</u>
Construction fund	\$ -	\$ 23,821
SOS account	-	323
Totals	<u>\$ -</u>	<u>\$ 24,144</u>

Note 6. Donated Services and Assets

The value of donated services and assets included in the financial statements and the corresponding expenditure or asset capitalization for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Revenues		
Contributed services	\$ 8,495	\$ 11,634
Contributions	-	500
Totals	<u>\$ 8,495</u>	<u>\$ 12,134</u>
Expenses		
Accounting	\$ -	\$ 11,634
Professional fees	4,900	-
Total expenses	<u>4,900</u>	<u>11,634</u>
Asset		
Equipment	<u>\$ 3,595</u>	<u>\$ 500</u>

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
Years Ended June 30, 2006 and 2005

Note 7. Related Party Transactions

The professional accounting services which were donated in the year ended June 30, 2005 were from Horne, LLP. Chuck Porter, CPA served on the Board of the Organization for the year ended June 30, 2005. Chuck is employed by Horne, LLP. There were no donated accounting services for the year ended June 30, 2006.

Cassetty Architecture provided the architect services for the building addition and renovation for the years ended June 30, 2006 and 2005. Clint Cassetty served on the Board of Directors of the Organization during these years. Fees paid for professional services to Cassetty Architecture were \$738 and \$9,000 for the years ended June 30, 2006 and 2005, respectively and reimbursed expenses to Cassetty Architecture were \$0 and \$1,841 for the years ended June 30, 2006 and 2005, respectively.

On January 9, 2006, the construction loan was converted to a note payable with First State Bank. The original principal amount of the note payable was \$136,770. Principal payments were made on the loan for the year ended June 30, 2006 in the amount of \$4,243. Bruce Carter, an employee of First State Bank, is the treasurer of the Organization for the year ended June 30, 2006.

Note 8. Supplemental Disclosures of Statements of Cash Flows

The supplemental cash flow disclosures for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Interest paid	<u>\$ 6,202</u>	<u>\$ -</u>
Noncash investing transactions:		
Construction in progress additions	\$ 205,019	\$ 165,676
Accounts payable at 6.30.05	57,508	(57,508)
Contributions of property and equipment	(3,595)	-
Accounts receivable-other at 6.30.05	<u>(789)</u>	<u>789</u>
Cash payments for construction in progress	<u>\$ 258,143</u>	<u>\$ 108,957</u>

The amounts included in the accounts payable and accounts receivable-other in the noncash schedule above will need to be taken out of the balances in order to reconcile to the Statements of Financial Position.

COMMUNITY CHILD CARE SERVICES, INC.
Notes to Financial Statements - Continued
Years Ended June 30, 2006 and 2005

Note 9. Construction Draw Down Line of Credit Loan and Note Payable

The Organization obtained a draw down line of credit loan in the amount of \$275,000 on March 31, 2005 for the building addition and renovation. The balance on the line of credit at June 30, 2005 was \$0. The construction loan agreement provides for interest to accrue at an interest rate of 5.5%. The maturity date of the line of credit is December 30, 2005. The real estate and fixtures of the Organization are pledged as collateral for the line of credit.

The line of credit was converted to a note payable with First State Bank on January 9, 2006. The original principal amount of the note payable on January 9, 2006 was \$136,770. The balance on the note payable on June 30, 2006 was \$132,527. The note payable agreement provides for monthly payments of \$1,132 which includes interest at 7.75%. The maturity date of the note payable is January 9, 2011. The first deed of trust on the real estate is pledged as collateral for the note payable.

Future maturities of the note payable are as follows:

Year Ended June 30,	Total Payments
2007	\$ 3,434
2008	3,710
2009	4,008
2010	4,330
2011	117,045
Total	<u>\$ 132,527</u>

Note 10. Subsequent Event

The balance on the construction line of credit as of December 22, 2005 was \$131,543.