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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, 2008 and 2007, 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, 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.



November 17, 2008
White House, Tennessee

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Financial Position
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash	\$ 64,657	\$ 16,175
Accounts receivable - fees, net of allowance for uncollectible accounts of \$1,154 and \$0 in 2008 and 2007	6,992	3,849
Government grants receivable	16,337	13,735
Prepaid insurance	6,312	3,431
Total current assets	<u>94,298</u>	<u>37,190</u>
 Property and equipment, net	 <u>761,108</u>	 <u>786,437</u>
 Total assets	 <u><u>\$ 855,406</u></u>	 <u><u>\$ 823,627</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 5,898	\$ 7,073
Accrued expenses	2,002	-
Accrued payroll	5,347	3,180
Payroll withholdings payable	-	518
Deferred revenue	4,581	-
Current portion of long-term debt	4,008	3,710
Total current liabilities	<u>21,836</u>	<u>14,481</u>
 Long-term liabilities		
Note payable to First State Bank	<u>122,111</u>	<u>125,976</u>
 Total liabilities	 <u>143,947</u>	 <u>140,457</u>
 Net assets		
Unrestricted net assets	<u>711,459</u>	<u>683,170</u>
 Total liabilities and net assets	 <u><u>\$ 855,406</u></u>	 <u><u>\$ 823,627</u></u>

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Activities
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted net assets		
Public support and revenues		
Fees - net of discounts, refunds and returned checks	\$ 329,044	\$ 316,520
Government grants	306,984	238,349
Contributions	12,713	13,407
United Way	28,068	30,000
The Memorial Foundation grant	30,000	30,000
Contributed services	4,000	5,000
Contributed equipment and supplies	6,390	1,679
Interest income	<u>377</u>	<u>436</u>
Total unrestricted public support and revenues	<u>717,576</u>	<u>635,391</u>
Expenses		
Program services	547,233	549,805
Management and general	118,895	115,930
Fundraising	<u>23,159</u>	<u>23,719</u>
Total expenses	<u>689,287</u>	<u>689,454</u>
Total increase (decrease) in net assets	<u>28,289</u>	<u>(54,063)</u>
Net assets at beginning of year	<u>683,170</u>	<u>737,233</u>
Net assets at end of year	<u><u>\$ 711,459</u></u>	<u><u>\$ 683,170</u></u>

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.
Statements of Functional Expenses
Years Ended June 30, 2008 and 2007

	2008				2007			
	Supporting Services				Supporting Services			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Salaries and wages	\$354,700	\$70,939	\$17,734	\$ 443,373	\$364,277	\$72,855	\$18,213	\$ 455,345
Payroll taxes	29,064	5,812	1,453	36,329	28,326	5,665	1,416	35,407
Employee benefits	13,558	2,711	677	16,946	18,115	3,622	905	22,642
Payroll processing fees	3,598	719	179	4,496	3,467	693	173	4,333
Food	57,287	-	-	57,287	46,801	-	-	46,801
Bad Debt Expense	12,603	-	-	12,603	13,427	-	-	13,427
Depreciation and amortization	22,287	2,622	1,311	26,220	23,025	2,708	1,354	27,087
Insurance	8,655	3,709	-	12,364	7,603	3,258	-	10,861
General supplies	4,939	4,378	-	9,317	4,902	4,347	-	9,249
Class supplies	2,202	-	-	2,202	4,711	-	-	4,711
Staff training	489	-	-	489	153	-	-	153
Bank charges	-	-	-	-	-	60	-	60
Housekeeping	8,109	901	-	9,010	7,020	780	-	7,800
Accounting	-	-	-	-	-	1,975	-	1,975
Professional fees	-	6,250	-	6,250	-	8,400	-	8,400
Advertising	-	537	-	537	-	670	-	670
Contributions	300	-	-	300	-	-	-	-
Dues and subscriptions	-	569	-	569	-	498	-	498
Interest expense	8,519	1,002	501	10,022	9,132	1,074	537	10,743
Miscellaneous	-	7	-	7	-	551	-	551
Loss (gain) on disposal of equipment	-	-	-	-	-	(1,417)	-	(1,417)
Office supplies	-	1,800	-	1,800	-	1,653	-	1,653
Flowers and gifts	-	25	-	25	-	165	-	165
Postage	-	158	-	158	-	68	-	68
Repairs and maintenance	-	12,070	-	12,070	-	4,325	-	4,325
Sanitation	1,918	226	113	2,257	1,894	223	111	2,228
Security System	387	46	23	456	326	39	19	384
Seminars and conferences	-	5	-	5	-	24	-	24
Utilities	16,801	1,976	988	19,765	14,865	1,748	874	17,487
Taxes and licenses	-	800	-	800	-	895	-	895
Telephone	1,817	1,633	181	3,631	1,169	1,051	117	2,337
Uniforms	-	-	-	-	592	-	-	592
Total expenses	<u>\$ 547,233</u>	<u>\$ 118,895</u>	<u>\$ 23,159</u>	<u>\$ 689,287</u>	<u>\$ 549,805</u>	<u>\$ 115,930</u>	<u>\$ 23,719</u>	<u>\$ 689,454</u>

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 28,289	\$ (54,063)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,220	27,087
Contributions of property and equipment	(891)	(800)
Loss on disposal of equipment	-	113
(Increase) decrease in:		
Employee advances	-	120
Accounts receivable - fees and other	(3,143)	5,082
Grants and contribution receivable	(2,602)	(3,055)
Prepaid insurance	(2,881)	3,961
Increase (decrease) in:		
Accounts payable	(1,175)	1,620
Accrued expenses	2,002	-
Accrued payroll and payroll withholdings payable	1,649	(345)
Deferred revenue	4,581	-
Net cash provided (used) by operating activities	<u>52,049</u>	<u>(20,280)</u>
Cash flows from investing activities		
Cash payments for the purchase of property	<u>-</u>	<u>(2,598)</u>
Net cash used by investing activities	<u>-</u>	<u>(2,598)</u>
Cash flows from financing activities		
Principal payments on note payable to First State Bank	<u>(3,567)</u>	<u>(2,841)</u>
Net cash used by financing activities	<u>(3,567)</u>	<u>(2,841)</u>
Net increase (decrease) in cash	48,482	(25,719)
Cash at beginning of year	<u>16,175</u>	<u>41,894</u>
Cash at end of year	<u><u>\$ 64,657</u></u>	<u><u>\$ 16,175</u></u>

Supplemental disclosures - See Note 5

The accompanying notes are an integral part of these statements.

COMMUNITY CHILD CARE SERVICES, INC.

Notes to Financial Statements Years Ended June 30, 2008 and 2007

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. The Organization had no cash equivalents for the years ended June 30, 2008 and 2007.

Accounts Receivable - Fees

The Organization records an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts is based on the Organization's historical collection experience and a review of outstanding accounts.

COMMUNITY CHILD CARE SERVICES, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

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.

Deferred Revenue

Deferred revenue represents child care fees received in advance for the next fiscal year.

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.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expense was \$537 and \$670 for the years ended June 30, 2008 and 2007, respectively.

COMMUNITY CHILD CARE SERVICES, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

Note 2. Property and Equipment

The components of property and equipment as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 80,000	\$ 80,000
Building	761,940	761,940
Equipment	54,587	53,696
Furniture and fixtures	27,834	27,834
Software	2,111	2,111
	<u>926,472</u>	<u>925,581</u>
Less: accumulated depreciation	<u>(165,364)</u>	<u>(139,144)</u>
Total property and equipment, net	<u>\$ 761,108</u>	<u>\$ 786,437</u>

Depreciation and amortization expense for the years ended June 30, 2008 and 2007 was \$26,220 and \$27,087, respectively.

Note 3. 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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
<u>Revenues</u>		
Contributed services	\$ 4,000	\$ 5,000
Contributed equipment and supplies	<u>6,390</u>	<u>1,679</u>
Totals	<u>\$ 10,390</u>	<u>\$ 6,679</u>
<u>Expenses</u>		
Repairs and maintenance	\$ 6,999	\$ 200
Class supplies	-	879
Professional fees	<u>2,500</u>	<u>4,800</u>
Total expenses	<u>\$ 9,499</u>	<u>\$ 5,879</u>
<u>Asset</u>		
Equipment	<u>\$ 891</u>	<u>\$ 800</u>

COMMUNITY CHILD CARE SERVICES, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

Note 4. Concentrations

The Organization is economically dependent on grants from the State of Tennessee. During the years ended June 30, 2008 and 2007, the Organization received 40% and 35% 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 receives child care fees from parents living in the Middle Tennessee region. The child care fees accounted for 46% and 50% of the total public support and revenues for the years ended June 30, 2008 and 2007, respectively.

Note 5. Supplemental Disclosures of Statements of Cash Flows

The supplemental cash flow disclosures for the years ended June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Interest paid	<u>\$ 10,022</u>	<u>\$ 10,744</u>
Noncash investing transactions:		
Contributed equipment	<u>\$ 891</u>	<u>\$ 800</u>

Note 7. Note Payable to First State Bank

A construction 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, 2008 and 2007 was \$126,119 and \$129,686, respectively. 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:

<u>Year Ended June 30,</u>	<u>Total Payments</u>
2009	\$ 4,008
2010	4,330
2011	<u>117,781</u>
Total	<u>\$ 126,119</u>