

HIGH HOPES, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

For the Years Ended August 31, 2011 and 2010

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 statements of financial position of High Hopes, Inc. (a nonprofit organization) (the "Organization") as of August 31, 2011 and 2010, 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. 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 the Organization as of August 31, 2011 and 2010, 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
December 28, 2011

High Hopes, Inc.
Statements of Financial Position
As of August 31, 2011 and 2010

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 34,972	\$ 43,012
Contributions receivable, net	32,500	20,833
Accounts receivable, net	151,749	178,811
Deposits and prepaids	10,150	-
Total current assets.....	<u>229,371</u>	<u>242,656</u>
Property and equipment, net	<u>60,259</u>	<u>65,774</u>
Total assets.....	<u><u>\$ 289,630</u></u>	<u><u>\$ 308,430</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 16,480	\$ 11,151
Accrued expenses	25,753	24,983
Obligations under line of credit	114,190	54,356
Total current liabilities	<u>156,423</u>	<u>90,490</u>
Net assets		
Unrestricted.....	75,148	176,305
Temporarily restricted.....	58,059	41,635
Total net assets	<u>133,207</u>	<u>217,940</u>
Total liabilities and net assets	<u><u>\$ 289,630</u></u>	<u><u>\$ 308,430</u></u>

See accompanying notes.

High Hopes, Inc.
Statement of Activities
For the Year Ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions:			
United Way.....	\$ 7,923	\$ 32,500	\$ 40,423
Other.....	171,013	25,559	196,572
Therapy fees, net	679,791	-	679,791
Tuition and fees.....	671,924	-	671,924
Special events.....	162,656	-	162,656
Less: donor direct benefit costs	(51,340)	-	(51,340)
In-kind contributions	47,807	-	47,807
Other income.....	8,693	-	8,693
Net assets released from restrictions	41,635	(41,635)	-
Total support and revenue.....	<u>1,740,102</u>	<u>16,424</u>	<u>1,756,526</u>
Expenses			
Program services	1,591,941	-	1,591,941
Management and general	198,891	-	198,891
Fundraising.....	50,427	-	50,427
Total expenses	<u>1,841,259</u>	<u>-</u>	<u>1,841,259</u>
Change in net assets.....	(101,157)	16,424	(84,733)
Net assets at beginning of year	176,305	41,635	217,940
Net assets at end of year.....	<u>\$ 75,148</u>	<u>\$ 58,059</u>	<u>\$ 133,207</u>

See accompanying notes.

High Hopes, Inc.
Statement of Activities
For the Year Ended August 31, 2010

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions:			
United Way.....	\$ 6,355	\$ 20,833	\$ 27,188
Other.....	310,235	20,802	331,037
Therapy fees, net	646,159	-	646,159
Tuition and fees.....	676,005	-	676,005
Special events.....	137,814	-	137,814
Less: donor direct benefit costs	(36,003)	-	(36,003)
In-kind contributions	31,720	-	31,720
Other income.....	870	-	870
Net assets released from restrictions	1,075	(1,075)	-
Total support and revenue.....	<u>1,774,230</u>	<u>40,560</u>	<u>1,814,790</u>
Expenses			
Program services	1,469,798	-	1,469,798
Management and general	169,470	-	169,470
Fundraising.....	64,746	-	64,746
Total expenses	<u>1,704,014</u>	<u>-</u>	<u>1,704,014</u>
Change in net assets.....	70,216	40,560	110,776
Net assets at beginning of year	106,089	1,075	107,164
Net assets at end of year.....	<u>\$ 176,305</u>	<u>\$ 41,635</u>	<u>\$ 217,940</u>

See accompanying notes.

High Hopes, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2011

	<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	\$ 456,652	\$ 467,526	\$ 924,178	\$ 126,296	\$ 33,296	\$ 159,592	\$ 1,083,770
Payroll taxes	37,462	38,354	75,816	10,361	2,731	13,092	88,908
Employee benefits	22,991	23,539	46,530	6,359	1,676	8,035	54,565
Total salaries and related expenses	517,105	529,419	1,046,524	143,016	37,703	180,719	1,227,243
Advertising	1,471	1,506	2,977	407	107	514	3,491
Contractual services	15,356	63,266	78,622	-	-	-	78,622
Depreciation	16,204	16,590	32,794	4,482	1,182	5,664	38,458
Equipment maintenance	10,008	10,246	20,254	2,768	730	3,498	23,752
Insurance	6,346	6,497	12,843	1,755	463	2,218	15,061
Interest	1,213	1,242	2,455	335	88	423	2,878
Occupancy	103,780	106,251	210,031	28,702	7,567	36,269	246,300
Other	4,563	4,672	9,235	1,263	333	1,596	10,831
Postage	386	396	782	107	28	135	917
Professional fees	4,445	4,551	8,996	1,229	324	1,553	10,549
Special event costs	-	-	-	-	51,340	51,340	51,340
Bad debts	23,209	23,761	46,970	-	-	-	46,970
Printing	3,029	3,101	6,130	838	221	1,059	7,189
In-kind contributions	20,144	20,623	40,767	5,571	1,469	7,040	47,807
Supplies	12,971	52,975	65,946	1,276	-	1,276	67,222
Telephone	2,905	2,974	5,879	803	212	1,015	6,894
Training	511	225	736	6,339	-	6,339	7,075
Total expenses	743,646	848,295	1,591,941	198,891	101,767	300,658	1,892,599
Less expenses included with revenues on the statement of activities – donor direct benefit costs	-	-	-	-	(51,340)	(51,340)	(51,340)
Total expenses included in the expense section of the statement of activities	<u>\$ 743,646</u>	<u>\$ 848,295</u>	<u>\$ 1,591,941</u>	<u>\$ 198,891</u>	<u>\$ 50,427</u>	<u>\$ 249,318</u>	<u>\$ 1,841,259</u>

See accompanying notes.

High Hopes, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2010

	Program Services			Supporting Services			
	Education	Therapy	Total Program Services	Management and General	Fundraising	Total Support Services	Total Functional Expenses
Salaries	\$ 452,289	\$ 440,742	\$ 893,031	\$ 104,910	\$ 42,000	\$ 146,910	\$ 1,039,941
Payroll taxes	40,057	39,034	79,091	9,291	3,720	13,011	92,102
Employee benefits	28,903	28,165	57,068	6,704	2,684	9,388	66,456
Total salaries and related expenses	521,249	507,941	1,029,190	120,905	48,404	169,309	1,198,499
Advertising	1,659	1,617	3,276	385	154	539	3,815
Contractual services	10,349	47,786	58,135	-	-	-	58,135
Depreciation	20,709	20,181	40,890	4,804	1,923	6,727	47,617
Equipment maintenance	8,600	8,381	16,981	1,995	799	2,794	19,775
Insurance	6,407	6,243	12,650	1,486	595	2,081	14,731
Interest	2,589	2,523	5,112	601	240	841	5,953
Occupancy	107,111	104,376	211,487	24,845	9,946	34,791	246,278
Other	3,268	3,186	6,454	759	304	1,063	7,517
Postage	1,041	1,014	2,055	241	97	338	2,393
Professional fees	4,857	4,733	9,590	1,127	451	1,578	11,168
Special event costs	-	-	-	-	36,003	36,003	36,003
Bad debts	(937)	(913)	(1,850)	-	-	-	(1,850)
Printing	3,070	2,991	6,061	712	285	997	7,058
In-kind contributions	13,795	13,443	27,238	3,200	1,281	4,481	31,719
Supplies	10,506	25,192	35,698	2,119	-	2,119	37,817
Telephone	2,877	2,804	5,681	667	267	934	6,615
Training	-	1,150	1,150	5,624	-	5,624	6,774
Total expenses	717,150	752,648	1,469,798	169,470	100,749	270,219	1,740,017
Less expenses included with revenues on the statement of activities – donor direct benefit costs	-	-	-	-	(36,003)	(36,003)	(36,003)
Total expenses included in the expense section of the statement of activities	<u>\$ 717,150</u>	<u>\$ 752,648</u>	<u>\$ 1,469,798</u>	<u>\$ 169,470</u>	<u>\$ 64,746</u>	<u>\$ 243,216</u>	<u>\$ 1,704,014</u>

See accompanying notes.

High Hopes, Inc.
Statements of Cash Flows
For the Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ (84,733)	\$ 110,776
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation.....	38,458	47,617
Decrease (increase) in accounts receivable, net	27,062	(29,258)
Increase in contributions receivable, net	(11,667)	(20,833)
Increase in deposits and prepaids.....	(10,150)	-
Increase in accounts payable and accrued expenses.....	6,099	440
Net cash (used in) provided by operating activities	<u>(34,931)</u>	<u>108,742</u>
Cash flows from investing activities:		
Purchases of property and equipment.....	<u>(32,943)</u>	<u>(5,453)</u>
Net cash used in investing activities	<u>(32,943)</u>	<u>(5,453)</u>
Cash flows from financing activities:		
Net borrowings (payments) on revolving lines of credit	<u>59,834</u>	<u>(50,084)</u>
Net cash provided by (used in) financing activities	<u>59,834</u>	<u>(50,084)</u>
Net decrease in cash and cash equivalents	(8,040)	53,205
Cash and cash equivalents, at beginning of period.....	<u>43,012</u>	<u>(10,193)</u>
Cash and cash equivalents, at end of period	<u>\$ 34,972</u>	<u>\$ 43,012</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 2,879</u>	<u>\$ 5,953</u>
Income taxes paid.....	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2011 and 2010

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. Contributions receivable were \$32,500 and \$20,833 as of August 31, 2011 and 2010, respectively. The balances represent contributions receivable due from the United Way of Williamson County and were temporarily restricted as of August 31, 2011 and 2010, respectively, as the balances are not be collected until the Organization’s subsequent fiscal year.

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

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2011 and 2010

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, which also include marketing and development, are expensed as incurred. Advertising costs were \$3,698 and \$3,815 for the years ended August 31, 2011 and 2010, 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 three 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, 2011 and 2010

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, 2011 and 2010, accounts receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Accounts receivable from tuition and therapy services	\$ 187,789	\$ 195,921
Less allowance for contractual adjustments and allowances for bad debts	<u>(36,040)</u>	<u>(17,110)</u>
Account receivable, net	<u>\$ 151,749</u>	<u>\$ 178,811</u>

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2011 and 2010

3. Property and Equipment

Property and equipment consisted of the following as of August 31, 2011 and 2010:

	2011	2010
Furniture and equipment.....	\$ 145,795	\$ 141,755
Playground equipment.....	15,409	15,409
Leasehold improvements.....	85,475	85,475
	246,679	242,639
Less: accumulated depreciation....	(186,420)	(176,865)
Property and equipment, net.....	\$ 60,259	\$ 65,774

4. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for the year ended August 31, 2011 were as follows:

	Beginning of Year	Restricted Contributions	Released from Restriction	End of Year
Programs	\$ 802	\$ 4,000	\$ (4,790)	\$ 12
Software	20,000	-	(20,000)	-
Building	-	35,753	(10,206)	25,547
United Way	20,833	32,500	(20,833)	32,500
	\$ 41,635	\$ 72,253	\$ (55,829)	\$ 58,059

Changes in temporarily restricted net assets for the year ended August 31, 2010 were as follows:

	Beginning of Year	Restricted Contributions	Released from Restriction	End of Year
Programs	\$ 1,075	\$ 10,138	\$ (10,411)	\$ 802
Software	-	20,000	-	20,000
United Way	-	25,000	(4,167)	20,833
	\$ 1,075	\$ 55,138	\$ (14,578)	\$ 41,635

5. Employee Benefits

The Organization offers medical, dental and supplemental insurance plans to all full-time employees. The costs of this plan to the Organization for the years ended August 31, 2011 and 2010 were \$54,565 and \$66,455, respectively.

High Hopes, Inc.
Notes to the Financial Statements
August 31, 2011 and 2010

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 Organization's tangible property and is payable on demand. The line of credit requires monthly interest payments on the outstanding balance. The interest rate was 3.25% as of August 31, 2011 and 2010, respectively. The outstanding balance on the line of credit was \$39,440 as of August 31, 2011 and 2010, respectively.

During August 2007, the Organization obtained a second line of credit from Tennessee Commerce Bank with maximum borrowing availability of \$75,000. 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 7.00% as of August 31, 2011 and 2010, respectively. The outstanding balance on the line of credit was \$74,750 and \$14,916 as of August 31, 2011 and 2010, respectively.

7. Operating Lease Commitments

The Organization leases its current facility located on Mallory Lane in Brentwood, Tennessee, as well as certain office equipment. Lease expense under the Organization's operating leases was \$251,131 and \$246,278 for the year ended August 31, 2011 and 2010, respectively. Future minimum lease commitments under Organization's lease agreements are as follows:

2012	\$	250,836
2013		3,402
2014		-
2015		-
2016		-
Thereafter.....		-
	\$	<u>254,238</u>

During August 2011, the Organization entered into a real estate purchase and sale agreement (the "Agreement") to purchase a piece of property in Franklin, Tennessee. The purchase price of the property under the terms of the Agreement is \$620,000. Upon finalization of the purchase under the terms of the Agreement the Organization intends to build a new building on the property and relocate to Franklin, Tennessee. Prior to entering into the Agreement, the Organization requested and received an amendment (the "Amendment") to its current lease on its Brentwood, Tennessee location. Under the Amendment, the Organization will be allowed to continue to occupy its current facility until the new building is constructed and ready for occupancy on the same terms of the Organization's existing lease on a month-to-month basis.

High Hopes, Inc.
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August 31, 2011 and 2010

8. Subsequent Events

The Organization has evaluated all events or transactions that occurred after August 31, 2011, through December 28, 2011, the date these financial statements were issued. During this period the Organization did not have any material recognizable events that required recognition in the disclosures to the August 31, 2011 financial statements.
