GROWING TOGETHER PRESCHOOL, INC.
Lexington, Kentucky

FINANCIAL STATEMENTS
December 31, 2010 and 2009

CONTENTS

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INDEPENDENT AUDITORS' REPORT

Growing Together Preschool, Inc.
599 Lima Drive
Lexington, Kentucky 40511

We have audited the accompanying statements of financial position of the Growing Together Preschool, Inc. (a nonprofit organization) as of December 31, 2010 and 2009 and the related statements of activity 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and **Government Auditing Standards,** issued by the Comptroller General of the United States. 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 Growing Together Preschool, Inc. as of December 31, 2010 and 2009 and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated August 31, 2011 on our consideration of Growing Together Preschool, Inc.'s internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating expenses on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements

Ray, Foley, Hensley & Company
RAY, FOLEY, HENSLEY & COMPANY, PLLC
August 31, 2011

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GROWING TOGETHER PRESCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
December 31,

	2010	2009
ASSETS		
Current Assets		
Cash	$ 16,046	$ 5,088
Prepaid expenses	-	1,462
Accounts receivable		
Tuition	9,814	8,929
Government programs	11,289	6,076
Reserve for uncollectible	(5,197)	(2,098)
Total Current Assets	31,952	19,457
Property and Equipment, net of depreciation	384,405	380,308
TOTAL ASSETS	$ 416,357	$ 399,765
LIABILITIES		
Current Liabilities		
Accounts payable	$ 4,313	$ 9,239
Payroll taxes payable	15,274	13,907
Deferred revenue	735	639
Line of credit	-	11,000
Current portion of capital leases	3,547	-
Current portion of long term debt	29,133	25,069
Total Current Liabilities	53,002	59,854
Long Term Liabilities		
Capital leases	5,913	-
Long term debt	176,405	205,477
Total Long Term Liabilities	182,318	205,477
TOTAL LIABILITIES	235,320	265,331
NET ASSETS		
Unrestricted, available for general activities	181,037	134,434
TOTAL NET ASSETS	181,037	134,434
TOTAL LIABILITIES AND NET ASSETS	$ 416,357	$ 399,765

The accompanying notes are an integral part of the financial statements.

GROWING TOGETHER PRESCHOOL, INC.
STATEMENTS OF ACTIVITY
for the years ended December 31,

	2010	2009
SUPPORT AND REVENUE		
Public Support		
Contributions	$ 20,983	$ 17,108
Special events	10,758	14,158
Allocated by United Way	126,479	135,302
Fees from governmental agencies	83,145	75,961
Federal food program	30,415	28,209
Total Public Support	271,780	270,738
Revenues		
Program service fees	935,879	980,097
Miscellaneous	3,156	1,349
Total Revenue	939,035	981,446
TOTAL PUBLIC SUPPORT AND REVENUE	1,210,815	1,252,184
EXPENSES		
Program expenses	975,956	1,100,188
General administration	168,307	174,179
Depreciation	19,949	17,383
Total Expenses	1,164,212	1,291,750
Change in net assets	46,603	(39,566)
Net assets beginning of year	134,434	174,000
NET ASSETS, END OF THE YEAR	$ 181,037	$ 134,434

The accompanying notes are an integral part
of the financial statements.

GROWING TOGETHER PRESCHOOL, INC.
STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of support and revenue over expenses	$ 46,603	$ (39,566)
Adjustment to reconcile excess (deficiency) for support and revenue over expenses		
Depreciation	19,949	17,383
(Increase) decrease in accounts receivable	(2,999)	3,717
(Increase) in prepaid expenses	1,462	(1,462)
Increase (decrease) in payroll liabilities	1,367	7,887
(Decrease) in accrued interest payable	-	(1,478)
Increase (decrease) in deferred revenue	96	(1,203)
Increase (decrease) in accounts payable	(4,926)	6,224
Net cash provided (used) by operating activities	61,552	(8,498)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment	(11,039)	(1,489)
Net cash (used) by investing activities	(11,039)	(1,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in line of credit	(11,000)	11,000
Principal payments on long-term debt	(28,555)	(27,581)
Net cash (used) by financing activities	(39,555)	(16,581)
NET INCREASE (DECREASE) IN CASH	10,958	(26,568)
Cash-beginning of year	5,088	31,656
CASH-END OF YEAR	$ 16,046	$ 5,088
Supplemental disclosures:		
Interest paid	$ 13,671	$ 16,481

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Growing Together Preschool, Inc. (the School) is a non-profit corporation organized to provide preschool and day care services for children including handicapped and underprivileged children. The school receives significant third-party reimbursements from the state for the tuition of these children. These reimbursements represent 10% of the tuition collected.

The financial statements of the Growing Together Preschool, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial statement presentation

The School 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. In addition, the School is required to present a statement of cash flows.

The School is required to report its investments at fair market value. Gains and losses on investments are reported as changes in unrestricted net assets unless a donor's explicit stipulation or law extends a donor's endowment restriction to the income from the gift.

Contributions

The organization reports gifts of cash and other assets as 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 activity as net assets released from restrictions.

The organization reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long- lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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 which require specialized skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets

These assets generally result from revenues from providing services, receiving unrestricted contributions and receiving dividends and interest in income-producing assets, less expenses incurred in providing services, raising contributions and performing administrative functions. The only limits on unrestricted nets assets are the broad limits resulting from the nature of the organization, the environment in which it operates and the purposes specified in its articles of incorporation.

Temporarily Restricted Net Assets

These assets result from receiving contributions that may be expended only for specific purposes or in specific future periods. The School had no temporarily restricted net assets at December 31, 2010 and 2009.

Permanently Restricted Net Assets

These assets represent funds that are permanently restricted by the donor with income and appreciation available to support the general operations of the School. The School had no permanently restricted net assets at December 31, 2010 and 2009.

Advertising

The School expenses advertising costs as they are incurred. Advertising expense for December 31, 2010 and 2009 amounted to $5,239 and $5,099.

Property, Equipment and Depreciation

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Buildings are depreciated over 40 years and equipment and other assets are depreciated over 5-10 years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Estimates

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

Donated Materials and Services

The estimated fair market value of donated materials and services has been reflected in the accompanying financial statements as contributions with a like amount included in the respective expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Growing Together Preschool, Inc. is exempt from federal and Kentucky income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. PROPERTY, EQUIPMENT AND DEPRECIATION

The following is a summary of the fixed asset categories and changes during the two-year period.

	Balances 12/31/09	Additions/Deletions	Balances 12/31/10
Land	$ 98,059	$ -	$ 98,059
Buildings & Improvements	628,358	-	628,358
Equipment, furniture and fixtures	90,583	25,228	115,811
	817,000	25,228	842,228
Accumulated depreciation	(436,692)	(21,131)	(457,823)
Net fixed assets	$ 380,308	$ 4,097	$ 384,405

3. LONG-TERM DEBT

The School has a mortgage on the school building at 599 Lima Drive, Lexington, Kentucky. Chase Bank in Lexington, Kentucky holds this mortgage. The School previously was renewing the note and interest rate on an annual basis. On October 20, 2007, the School refinanced the mortgage to a fixed rate of 6.65% over a term of 59 months. The mortgage currently requires monthly payments of $3,503.10, with a lump sum due at the end of the note.

The annual debt service requirements based on the current rate and payment are as follows:

2011	$ 29,133	$ 12,904	$ 42,037
2012	176,405	10,096	186,501
Total	$ 205,538	$ 23,001	$ 228,539

4. LINE-OF-CREDIT

The School maintains a line of credit with Bank One to provide short-term financing during cash flow shortages. The line is authorized up to $25,000. The balance of the line at December 31, 2010 and 2009 was $0 and $11,000, respectively.

5. CAPITAL LEASE COMMITMENTS

The school has a commitment to lease a copier from Key Equipment Finance Inc. The capital lease calls for 48 payments of $295.61 with a purchase option of $1 at the end of the lease term. The remaining lease payments are as follows:

2011	$	3,547
2012		3,547
2013		2,365
	$	9,460

6. FUND RAISING ACTIVITIES

Total fund raising expenses incurred for the years ended December 31, 2010 and 2009 was $3,129 and $5,772. Total fundraising revenue for the years ended December 31, 2010 and 2009 was $10,758 and $14,158.

7. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the School also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance.

8. SUBSEQUENT EVENTS

The School has evaluated and considered the need to recognize or disclose subsequent events through August 31, 2011, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2010, have not been evaluated by the School.

Subsequent to year end, the School refinanced their long term debt with JP Morgan Chase on June 27, 2011 in the amount of $320,000 with the excess funds going to capital improvements. The School agrees to pay JP Morgan Chase 59 payments of $3,360.22 beginning on August 1, 2011 with the remaining principle due on July 1, 2016. The loan has a variable interest rate that is based on the Treasury Securities Index and has a 5% pre-payment penalty.

SUPPLEMENTAL INFORMATION

GROWING TOGETHER PRESCHOOL, INC.
SCHEDULE OF OPERATING EXPENSES
for the years ended December 31,

	2010	2009
Program Expenses		
Salaries	$ 842,503	$ 946,577
Payroll taxes	69,168	91,062
Food and beverage	64,285	62,549
	975,956	1,100,188
General Administration		
Salaries	53,845	50,881
Payroll taxes and benefits	4,119	3,893
Professional fees	5,200	5,200
Rehab fees	1,637	506
Insurance	19,627	16,890
Utilities	31,057	27,982
Telephone	3,855	3,850
Supplies	11,009	17,979
Maintenance and repairs	4,023	8,112
Advertising fees	5,239	5,099
Interest expense	13,671	16,481
Bad debt expense	2,012	670
Other	13,013	16,636
	168,307	174,179
Depreciation	19,949	17,383
Total Expenses	$ 1,164,212	$ 1,291,750

GROWING TOGETHER PRESCHOOL, INC.
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Growing Together Preschool, Inc.
Lexington, Kentucky

We have audited the financial statements of Growing Together Preschool, Inc. (a nonprofit organization) as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated August 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Growing Together Preschool, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Growing Together Preschool, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Growing Together Preschool, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information of the Board of Directors, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company
RAY, FOLEY, HENSLEY & COMPANY, PLLC
August 31, 2011