GROWING TOGETHER PRESCHOOL, INC.
Lexington, Kentucky

FINANCIAL STATEMENTS
December 31, 2008 and 2007

CONTENTS

Ray, Foley, Hensley & Company, PLLC

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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, 2008 and 2007 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, 2008 and 2007 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 June 2, 2009 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 audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ray, Foley, Hensley & Company

RAY, FOLEY, HENSLEY & COMPANY, PLLC
June 2, 2009

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

	2008	2007
ASSETS		
Current Assets		
Cash	$ 31,656	$ 9,664
Accounts receivable		
Tuition	7,626	3,378
Government programs	11,096	13,454
Reserve for uncollectible	(2,098)	(2,098)
Total Current Assets	48,280	24,398
Property and Equipment		
Net of depreciation	396,202	408,029
TOTAL ASSETS	$ 444,482	$ 432,427
LIABILITIES		
Current Liabilities		
Accounts payable	$ 3,015	$ 6,929
Payroll taxes payable	6,020	15,092
Accrued interest payable	1,478	1,614
Deferred revenue	1,842	1,766
Line of credit	-	15,000
Mortgage payable-current	25,467	23,761
Total Current Liabilities	37,822	64,162
Mortgage payable-long-term	232,660	258,080
TOTAL LIABILITIES	270,482	322,242
NET ASSETS		
Unrestricted, available for general activities	174,000	110,185
TOTAL NET ASSETS	174,000	110,185
TOTAL LIABILITIES AND NET ASSETS	$ 444,482	$ 432,427

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

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

	2008	2007
SUPPORT AND REVENUE		
Public Support		
Contributions	$ 13,815	$ 17,438
Special events	27,022	23,480
Allocated by United Way	151,252	155,462
Fees from governmental agencies	117,735	112,523
Federal food program	33,765	32,139
Total Public Support	343,589	341,042
Revenues		
Program service fees	1,009,164	947,969
Miscellaneous	2,946	2,681
Total Revenue	1,012,110	950,650
TOTAL PUBLIC SUPPORT AND REVENUE	1,355,699	1,291,692
EXPENSES		
Program expenses	1,092,577	1,069,951
General administration	180,720	189,425
Depreciation	18,587	14,863
Total Expenses	1,291,884	1,274,239
Change in net assets	63,815	17,453
Net assets beginning of year	110,185	92,732
NET ASSETS, END OF THE YEAR	$ 174,000	$ 110,185

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,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of support and revenue over expenses	$ 63,815	$ 17,453
Adjustment to reconcile excess (deficiency) for support and revenue over expenses		
Depreciation	18,587	14,863
Decrease (Increase) in accounts receivable	(1,890)	(2,024)
Increase (Decrease) in payroll liabilities	(9,072)	1,337
Increase (Decrease) in accrued interest payable	(136)	(458)
Increase (Decrease) in deferred revenue	76	222
Increase (Decrease)in accounts payable	(3,914)	3,063
Net cash provided (used) by operating activities	67,466	34,456
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment	(6,760)	(1,844)
Net cash provided (used) by investing activities	(6,760)	(1,844)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase(decrease) in line of credit	(15,000)	(10,000)
Principal payments on long-term debt	(23,714)	(18,874)
Net cash provided (used) by financing activities	(38,714)	(28,874)
NET INCREASE (DECREASE) IN CASH	21,992	3,738
Cash-beginning of year	9,664	5,926
CASH-END OF YEAR	$ 31,656	$ 9,664
Supplemental disclosures:		
Interest Paid	$ 18,552	$ 23,078

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

GROWING TOGETHER PRESCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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 for 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 reports in accordance with Statement of Financial Accounting Standards (SFAS) No. 117 **Financial Statements of Not-for-Profit Organizations** and No. 124 **Accounting for Certain Investments held by Not-for-Profit Organizations**.

Under SFAS No. 117, 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.

Under SFAS No. 124, 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 activities 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.

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.

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. 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.

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 12/31/07	Additions/Deletions	Balances 12/31/08
Land	$ 98,059	$ -	$ 98,059
Buildings & Improvements	628,358	-	628,358
Equipment, furniture and Fixtures	82,334	6,760	89,094
	808,751	6,760	815,511
Accumulated depreciation	(400,722)	(18,587)	(419,309)
Fixed asset disposition	-	-	-
Net fixed assets	$ 408,029	$ (11,827)	$ 396,202

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:

	Principal	Interest	Total
2009	$ 25,467	$ 16,570	$ 42,037
2010	27,239	14,799	42,038
2011	29,133	12,904	42,037
2012	176,288	10,096	186,384
Total	$ 258,127	$ 54,369	$ 312,496

4. LINE-OF-CREDIT

The Growing Together Preschool 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, 2008 and 2007 was $0 and $15,000, respectively.

5. RISK MANAGEMENT

The Growing Together Preschool 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 preschool also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance.

SUPPLEMENTAL INFORMATION

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

	2008	2007
Program Expenses		
Salaries	$ 934,804	$ 913,582
Payroll taxes	91,931	96,560
Food and beverage	65,842	59,809
	1,092,577	1,069,951
General Administration		
Salaries	49,400	47,961
Payroll taxes and benefits	3,779	3,669
Professional fees	4,600	4,163
Insurance	14,450	15,754
Utilities	27,769	25,510
Telephone	3,877	4,126
Supplies	25,038	26,869
Maintenance and repairs	8,246	14,617
Advertising fees	4,979	5,241
Interest expense	18,416	22,620
Bad debt expense	643	524
Other	19,523	18,371
	180,720	189,425
Depreciation	18,587	14,863
Total Expenses	$ 1,291,884	$ 1,274,239

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. (nonprofit organization) as of and for the years ended December 31, 2008 and 2007 and have issued our report thereon dated June 2, 2009. We conducted our audits 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 the Growing Together Preschool, Inc's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Growing Together Preschool, Inc's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Growing Together Preschool, Inc's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entities financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the Growing Together Preschool'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 that are required to be reported under

Government Auditing Standards.

This report is intended solely for the information of the Growing Together Preschool, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties. However, these reports are a matter of public record and their distribution is not limited.

Ray, Foley, Hensley & Company
RAY, FOLEY, HENSLEY & COMPANY, PLLC
June 2, 2009