

GROWING TOGETHER PRESCHOOL, INC.
Lexington, Kentucky

FINANCIAL STATEMENTS
December 31, 2012 and 2011

CONTENTS

Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6-10
Supplementary Information	
Schedules of Operating Expenses.....	11
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	12-13



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA
Mark R. Wadlington, CPA, CGMA
Gwendolyn B. Young, CPA, CVA

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Growing Together Preschool, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses presented on page 11 is presented for purposes of additional analysis and is not a required part of the basic 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated June 11, 2013, on our consideration of Growing Together Preschool, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of 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** in considering Growing Together Preschool, Inc.'s internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

June 11, 2013

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

ASSETS	2012	2011
Current assets		
Cash	\$ 21,224	\$ 521
Accounts receivable		
Tuition	24,428	11,679
Government programs	7,455	11,747
Reserve for uncollectible	<u>(8,564)</u>	<u>(5,197)</u>
Total current assets	<u>44,543</u>	<u>18,750</u>
Property and equipment, net of depreciation	<u>453,937</u>	<u>476,408</u>
TOTAL ASSETS	<u>\$ 498,480</u>	<u>\$ 495,158</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 5,269	\$ 4,600
Payroll taxes payable	12,410	5,879
Deferred revenue	776	923
Line of credit	20,000	-
Current portion of capital leases	2,297	3,222
Current portion of long-term debt	<u>28,028</u>	<u>26,501</u>
Total current liabilities	<u>68,780</u>	<u>41,125</u>
Long-term liabilities		
Capital leases	-	2,297
Long-term debt	<u>251,972</u>	<u>279,746</u>
Total long-term liabilities	<u>251,972</u>	<u>282,043</u>
TOTAL LIABILITIES	<u>320,752</u>	<u>323,168</u>
NET ASSETS		
Unrestricted, available for general activities	<u>177,728</u>	<u>171,990</u>
TOTAL NET ASSETS	<u>177,728</u>	<u>171,990</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 498,480</u>	<u>\$ 495,158</u>

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

GROWING TOGETHER PRESCHOOL, INC.
STATEMENT OF ACTIVITIES
for the years ended December 31,

UNRESTRICTED SUPPORT AND REVENUE	2012	2011
Public support		
Contributions	\$ 10,335	\$ 11,818
Special events	14,088	13,817
Allocation from United Way	111,919	116,811
Fees from governmental agencies	114,054	121,351
Federal food program	<u>33,082</u>	<u>33,567</u>
Total public support	<u>283,478</u>	<u>297,364</u>
Program revenues		
Program service fees	904,888	906,733
Miscellaneous	<u>1,465</u>	<u>2,231</u>
Total program revenue	<u>906,353</u>	<u>908,964</u>
 TOTAL UNRESTRICTED SUPPORT AND REVENUE	 <u>1,189,831</u>	 <u>1,206,328</u>
 EXPENSES		
Program expenses	955,346	1,016,786
General administration	199,114	173,642
Depreciation	<u>29,633</u>	<u>24,947</u>
Total expenses	<u>1,184,093</u>	<u>1,215,375</u>
Change in unrestricted net assets	5,738	(9,047)
Net assets, beginning of year	<u>171,990</u>	<u>181,037</u>
 NET ASSETS, END OF THE YEAR	 <u>\$ 177,728</u>	 <u>\$ 171,990</u>

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Change in unrestricted net assets	\$ 5,738	\$ (9,047)
Adjustments to reconcile change in unrestricted net assets		
Depreciation	29,633	24,947
(Increase) in accounts receivable	(5,089)	(2,323)
Increase (decrease) in payroll liabilities	6,530	(9,394)
Increase (decrease) in deferred revenue	(147)	188
Increase in accounts payable	<u>669</u>	<u>287</u>
Net cash provided by operating activities	<u>37,334</u>	<u>4,658</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(7,162)</u>	<u>(116,950)</u>
Net cash (used in) in investing activities	<u>(7,162)</u>	<u>(116,950)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in line of credit	20,000	-
Proceeds from issuance of long-term debt	-	320,000
Principal payments on long-term debt	<u>(29,469)</u>	<u>(223,233)</u>
Net cash provided by (used in) in financing activities	<u>(9,469)</u>	<u>96,767</u>
 NET INCREASE (DECREASE) IN CASH	 20,703	 (15,525)
Cash, beginning of year	<u>521</u>	<u>16,046</u>
 CASH, END OF YEAR	 <u>\$ 21,224</u>	 <u>\$ 521</u>
 Supplemental disclosures:		
Interest paid	<u>\$ 15,224</u>	<u>\$ 16,781</u>

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

GROWING TOGETHER PRESCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 third-party reimbursements from the State of Kentucky, for the tuition for these children. These reimbursements represent approximately 10% of the tuition collected.

The financial statements of the Growing Together Preschool, Inc. have been prepared on the accrual basis of accounting. The following significant accounting policies are described 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. The school had no investments at December 31, 2012 and 2011.

Contributions

The School 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 School 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.

Unrestricted Net Assets

These assets generally result from revenues generated by 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 net 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.

GROWING TOGETHER PRESCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011.

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, 2012 and 2011.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash in banks, funds in overnight repurchase agreements, and all highly liquid investments with maturities of three months or less at the time of purchase.

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.

Deferred Revenue

The School defines deferred revenue as tuition fees received in advance of the performed services.

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.

GROWING TOGETHER PRESCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The School expenses advertising costs as they are incurred. Advertising expense for December 31, 2012 and 2011 amounted to \$6,738 and \$4,083.

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. With few exceptions, the School is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2010.

2. CASH AND CASH EQUIVALENTS

The School maintains cash deposits in accounts with a federally insured bank in Lexington, Kentucky. The Federal Deposit Insurance Corporation provided insurance coverage up to \$250,000. As of December 31, 2012 and 2011, all deposits were fully insured.

3. PROPERTY AND EQUIPMENT

The following is a summary of the changes in property and equipment:

	Balances 12/31/2011	Additions/ Deletions	Balances 12/31/2012
Land	\$ 98,059	\$ -	\$ 98,059
Buildings & improvements	696,797	-	696,797
Equipment, furniture and fixtures	<u>164,322</u>	<u>7,162</u>	<u>171,484</u>
	959,178	7,162	966,340
Accumulated depreciation	<u>(482,770)</u>	<u>(29,633)</u>	<u>(512,403)</u>
Net property and equipment	<u>\$ 476,408</u>	<u>\$ (22,471)</u>	<u>\$ 453,937</u>

4. 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. On June 27, 2011, the School refinanced the mortgage to a fixed rate of 4.70% over a term of 59 months. The mortgage requires monthly payments of \$3,360.22, with a lump sum in the amount of \$192,360 due upon maturity of the note on July 1, 2016.

GROWING TOGETHER PRESCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

4. LONG-TERM DEBT (CONTINUED)

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

Year	Principal	Interest	Total
2013	\$ 28,028	\$ 12,549	\$ 40,577
2014	29,107	11,216	40,323
2015	30,505	9,818	40,323
2016	<u>192,360</u>	<u>4,362</u>	<u>196,722</u>
Total	<u>\$ 280,000</u>	<u>\$ 37,945</u>	<u>\$ 317,945</u>

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 interest on this lease is 8.00%. The remaining principal and interest payments are as follows:

Year	Principal	Interest	Total
2013	<u>\$ 2,297</u>	<u>\$ 69</u>	<u>\$ 2,366</u>
Total	<u>\$ 2,297</u>	<u>\$ 69</u>	<u>\$ 2,366</u>

The changes in debt during 2012 are as follows:

	Dec 31, 2011	Additions	Retirements	Dec 31, 2012
Mortgage	\$ 306,247	\$ -	\$ (26,247)	\$ 280,000
Line of Credit	-	20,000	-	20,000
Capital Lease	<u>5,519</u>	<u>-</u>	<u>(3,222)</u>	<u>2,297</u>
Total	<u>\$ 311,766</u>	<u>\$ 20,000</u>	<u>\$ (29,469)</u>	<u>\$ 302,297</u>

6. 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 and has an interest rate of 4.25%. The balance of the line was \$20,000 and \$0 at December 31, 2012 and 2011, respectively.

7. FUND RAISING ACTIVITIES

Fund raising expense incurred for the years ended December 31, 2012 and 2011, totaled \$4,261 and \$3,720, respectively. Fundraising revenue for the years ended December 31, 2012 and 2011 totaled \$14,088 and \$13,817, respectively.

GROWING TOGETHER PRESCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

8. 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.

9. SUBSEQUENT EVENTS

The School has evaluated and considered the need to recognize or disclose subsequent events through June 11, 2013, 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, 2012, have not been evaluated by the School.

SUPPLEMENTARY INFORMATION

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

	2012	2011
Program Expenses		
Salaries	\$ 836,924	\$ 880,530
Payroll taxes	63,632	66,520
Food and beverage	<u>54,790</u>	<u>69,736</u>
Total program expense	<u>955,346</u>	<u>1,016,786</u>
General Administration		
Salaries	52,277	53,061
Payroll taxes and benefits	3,999	4,059
Professional fees	5,350	5,200
Rehab fees	413	1,300
Insurance	19,308	16,036
Utilities	27,178	32,314
Telephone	3,613	4,213
Supplies	30,216	12,713
Maintenance and repairs	8,537	5,937
Advertising fees	6,738	4,083
Interest expense	15,224	16,781
Bad debt expense	6,604	1,213
Other	<u>19,657</u>	<u>16,732</u>
Total general administration	<u>199,114</u>	<u>173,642</u>
Depreciation	<u>29,633</u>	<u>24,947</u>
Total Expenses	<u>\$ 1,184,093</u>	<u>\$ 1,215,375</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, in accordance with the 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, the financial statements of Growing Together Preschool, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Growing Together Preschool, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Growing Together Preschool, Inc.'s financial statements are free from 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**.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley and Company, PLLC
June 11, 2013