McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2006

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Cowart, Sargent & Webb
Certified Public Accountants, P.C.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
McNeilly Center for Children, Inc.
400 Meridian Street
Nashville, TN 37207

We have audited the accompanying statement of financial position of McNeilly Center for Children, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the McNeilly Center for Children, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 McNeilly Center for Children, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cowart, Sargent & Webb

Cowart, Sargent & Webb,
Certified Public Accountants, P.C.

October 12, 2006

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
JUNE 30, 2006
(See Auditors' Report)

	OPERATIONS		ENDOWMENT	
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Current Assets:				
Cash & Temporary Cash Investments (Notes 1 & 5)	$ 145,256	$ 181,064	$ 15,228	$ 341,548
Tuition Receivable - Program Receivables	204,473	-	-	204,473
Accounts Receivable	804	-	-	804
Allowance for Bad Debts	(606)	-	-	(606)
Prepaid Expenses	27,982	-	-	27,982
Total Current Assets	377,909	181,064	15,228	574,201
Long Term Investments (Note 5)	-	-	561,023	561,023
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,340,937	-	-	1,340,937
Equipment	434,240	-	-	434,240
	1,840,766	-	-	1,840,766
Less accumulated depreciation	(835,578)	-	-	(835,578)
Net Fixed Assets	1,005,188	-	-	1,005,188
TOTAL ASSETS	1,383,097	181,064	576,251	2,140,412
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	34,717	8,234	-	42,951
Accrued Salaries and Benefits	152,772	-	-	152,772
Unearned Grant Revenue	-	105,000	-	105,000
Prepaid Tuition	7,676	-	-	7,676
Total Current Liabilities	195,165	113,234	-	308,399
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
TOTAL LIABILITIES	195,165	113,234	-	308,399
Net Assets				
Net Assets - undesignated	1,179,698	67,830	576,251	1,823,779
Board Designated (Note 11)	8,234	-	-	8,234
Total Net Assets	1,187,932	67,830	576,251	1,832,013
TOTAL LIABILITIES AND NET ASSETS	$ 1,383,097	$ 181,064	$ 576,251	$ 2,140,412

The accompanying notes are an integral part of the financial statements

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Activity
For the Year Ended June 30, 2006
(See Auditors' Report)

	OPERATIONS		ENDOWMENT	
PUBLIC SUPPORT & REVENUE	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
U.S. Dept. of Agriculture, passed through Tenn. Dept. of Human Services:				
Child Care Food Program	$ 275,324	$ -	$ -	$ 275,324
DHS Revenues	1,547,262	-	-	1,547,262
United Way	313,163	-	-	313,163
Client Fee	671,211	-	-	671,211
Special Events and Other Fund Raising	29,633	-	-	29,633
Grant Revenue	140,951	49,937	-	190,888
Gifts	3,281	-	7,699	10,980
HeadStart	234,778	-	-	234,778
Metro Social Services	125,000	-	-	125,000
Other Source	4,290	-	-	4,290
Investment Income - Endowment (Net of Trust Fees $ 3,888)	34,381	-	2,276	36,657
Interest Income	1,620	-	-	1,620
Total Support and Revenue	3,380,894	49,937	9,975	3,440,806
Net Assets Released From Restrictions				
Satisfaction of donor restrictions	31,032	(31,032)	-	-
Total Earned Revenue and Support	3,411,926	18,905	9,975	3,440,806
EXPENSES				
Program Services:				
Day Care	3,203,139	-	-	3,203,139
Supporting Services:				
Management and General	224,141	-	-	224,141
Fund Raising	53,790	-	-	53,790
Total Expenses	3,481,070	-	-	3,481,070
Changes in Net Assets	(69,144)	18,905	9,975	(40,264)
Net Assets -				
Beginning of year	1,257,076	48,925	566,276	1,872,277
End of Year	$ 1,187,932	$ 67,830	$ 576,251	$ 1,832,013

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Cash Flow
For the Year Ended June 30, 2006
(See Auditors' Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Cash Flow from Operating Activities:				
Changes in net assets	$ (69,144)	$ 18,905	9,975	$ (40,264)
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	78,112	-	-	78,112
Unrealized (Gain)/Loss on Investments	-	-	(2,276)	(2,276)
Loss on the Disposal of assets	1,181	-	-	1,181
(Increase) Decrease in accounts and tuition receivable	(11,094)	-	-	(11,094)
(Increase) Decrease prepaid expenses	(5,436)	-	-	(5,436)
Increase (Decrease) in prepaid tuition	7,676			7,676
Increase (Decrease) in accounts payable	(15,401)	8,234	-	(7,167)
Increase (Decrease) in Salaries and Wages payable	16,606	-	-	16,606
Increase (Decrease) in unearned revenue	-	105,000	-	105,000
Net cash provided (used) by operating activities	2,500	132,139	7,699	142,338
Cash Flow from Investing Activities:				
Purchase of Investments	-	-	-	-
Proceeds from Sales of Investments	-	-	-	-
Purchase of property and equipment	(14,697)	-	-	(14,697)
Net cash provided (used) by investing activities	(14,697)	-	-	(14,697)
Cash Flows from Financing Activities:				
Increase (Decrease) in Long-Term Debt	-	-	-	-
Net cash provided (used) by financing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(12,197)	132,139	7,699	127,641
Cash and cash equivalents at beginning of year	157,453	48,925	7,529	213,907
Cash and cash equivalents at end of year	$ 145,256	$ 181,064	15,228	$ 341,548

Supplemental Data:

Interest paid	$0
Income tax paid	$0

The accompanying notes are an integral part of the financial statements

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Functional Expenses
For the Year Ended June 30, 2006
(See Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	$ 1,998,250	$ 162,167	$ 41,529	$ 203,696	$ 2,201,946
Fringe Benefits	402,278	24,395	7,946	32,341	434,619
Total Personnel Expenses	2,400,528	186,562	49,475	236,037	2,636,565
Travel	16,933	1,806	173	1,979	18,912
Communication	12,007	1,805	510	2,315	14,322
Occupancy	195,360	5,580	3,405	8,985	204,345
Professional Services	858	16,978	-	16,978	17,836
Supplies	90,407	395	177	572	90,979
Maintenance	52,458	-	-	-	52,458
Food Costs	298,793	-	-	-	298,793
Printing & Publications	5,033	788	-	788	5,821
Bad Debt Expense	10,130	4,002	-	4,002	14,132
Training & Seminars	1,316	-	-	-	1,316
Enrichment / Field Trips	23,205	-	-	-	23,205
Dues	552	505	-	505	1,057
Minor Equipment Purchases	-	-	-	-	-
Interest Expense	-	-	-	-	-
Miscellaneous	21,536	450	50	500	22,036
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	$ 3,129,116	$ 218,871	$ 53,790	$ 272,661	$ 3,401,777
Depreciation Expense	72,842	5,270	-	5,270	78,112
Loss on Disposal of Fixed Assets	1,181	-	-	-	1,181
TOTAL FUNCTIONAL EXPENSES	$ 3,203,139	$ 224,141	$ 53,790	$ 277,931	$ 3,481,070

The accompanying notes are an integral part of the financial statements

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities
McNeilly Center for Children, Inc. (the Organization) is a nonprofit organization, serving Nashville, Tennessee. The Organization provides day care services to working families, emphasizing a quality education and nutrition program for children ages eighteen months through ten years. The Organization receives a substantial amount of its support from the Tennessee Department of Human Services, the Child and Adult Care Food Program, and Head Start.

Financial Statement Presentation
The Organization has adopted 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. As permitted by the statement, the Organization does not use fund accounting.

Revenue and expenses are recorded when incurred in accordance with the accrual basis of accounting.

Contributions
The Organization has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made.* Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets in the period received.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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. Temporarily restricted contributions for which the donor's restrictions are met in the same period in which the gift is received are reported as unrestricted support.

Investments
The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations.* Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of parents to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

1. AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

It is the Organization's policy to capitalize property and equipment over $500.00. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method; buildings over an estimated useful life of forty years, equipment, furniture and fixtures over an estimated useful life of five to ten years.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount and fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Services as other than a private foundation.

Functional Expenses

The Organization has allocated functional expenses between Program Services and Supporting Services based on an analysis of personnel time and space utilized for the related activities.

Estimates

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

2. FUNDING

The Organization receives a substantial amount of its support from the Tennessee Department of Human Services, Child and Adult Care Food Program, and Head Start. A major reduction of funds by the grantor agencies, should this occur, may have a significant effect on future operations. Management is not aware of any planned changes in the level of funding.

3. TUITION RECEIVABLE - PROGRAM

At June 30, 2006 tuition receivables from the following agencies were as follows:

Head Start	$ 19,891
Metro Soc. Services	22,768
TDHS	137,927
CACFP	23,887
Total	$ 204,473

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2005, through June 30, 2006:

	Balance @ 7/1/05	Additions	Deletions	Balance @ 6/30/06
Land	$ 65,589	$ -	$ -	$ 65,589
Building	1,328,090	14,647	1,800	1,340,937
Equipment	434,188	52	-	434,240
Total	$ 1,827,867	$ 14,699	$ 1,800	$ 1,840,766

Properties are reported at acquisition cost. Cost of Maintenance and repairs are charged to expense The following estimated useful lives were used to compute depreciation expense of $78,112 using the straight-line method.

Buildings and improvements	20-40 Years
Furniture and equipment	5 - 10 Years

5. LONG-TERM INVESTMENTS

Investment assets consist primarily of securities traded on the national stock exchanges and a money market cash fund held by AmSouth Bank. Securities are stated at market value. The historical costs and market values at June 30, 2006 are as follows:

		June 30, 2006		June 30, 2005
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)
Cash in Money Market	$ 15,228	$ 15,228	$ -	$ -
Pioneer Gov't Income	65,000	60,015	(4,985)	(1,181)
Royce Fund	30,000	37,168	7,168	2,180
Value Mutual Fund	59,588	71,383	11,795	13,083
Pioneer Bond Fund Class Y	55,000	52,007	(2,993)	446
Mutual Mid Cap Fund	30,000	42,843	12,843	12,267
AmSouth Capital Growth	104,068	89,669	(14,399)	(13,189)
International Equity	25,000	38,025	13,025	9,025
Enhanced Market	70,000	83,534	13,534	9,231
Pioneer Short Term	90,000	86,379	(3,621)	(2,183)
Total	$ 543,884	$ 576,251	$ 32,367	$ 29,679

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2006:

	Unrestricted	Permanently Restricted	Total
Interest Income	$ 1,620	$ -	$ 1,620
Investment Income	34,381	-	$ 34,381
Net Realized & Unrealized Gains (Losses)	-	2,276	$ 2,276
Total	$ 36,001	$ 2,276	$ 38,277

6. COMPENSATED ABSENCES

Statement of Financial Standards (SFAS) No. 43, *Accounting for Compensated Absences*, provides for a liability to be accrued for vacation benefits that employees have earned but have not yet taken. Similarly, an asset is accrued for vacation benefits, which have been advanced to employees but have not yet been earned. The agency advances vacation leave to employees at the beginning of each fiscal year on July 1. Unused vacation leave can be carried forward past the agency's fiscal year end June 30. Therefore, $53,247 of vacation leave was due to employees at June 30, 2006. Accordingly a liability has been recorded. This amount is included in the accrual for salaries and benefits in current liabilities.

SFAS No. 43 does not require the accrual of future sick pay benefits, holidays, and similar compensated absences until employees are actually absent. Accordingly, neither an accrual nor expenditure has been recorded for such items.

7. UNEMPLOYMENT COMPENSATION

The corporation has chosen to operate as a self-insurer for unemployment compensation claims. The amount of unemployment compensation claims paid for the year ended June 30, 2006 was $3,724. Amount of claims paid for the first quarter after year ended June 30, 2006 for employees terminated prior to June 30, 2006 were $2,243.

8. PENSION PLANS

The agency adopted a thrift pension plan under section 403(b) of the Internal Revenue Code with an effective date of January 1, 1994. The initial formula is as follows: (1) a four percent discretionary contribution will be made by the agency for substantially all employees who are twenty-one years old and have completed one year of service. (2) Contribution from one percent to two percent may be made by eligible employees and will be matched 100% by the agency. (3) Additional non-matched contributions may be made by eligible employees subject to Internal Revenue Code limitations. Contribution percentages will be applied to compensation to determine eligible contributions.

Amounts contributed by the agency to the plan for the year ended June 30, 2006 was $69,352.

9. CONCENTRATION OF CREDIT RISK

The Organization provides day care services for children of parents living in the city of Nashville, Tennessee. An adverse change in the economic condition of the city could affect the ability to collect the accounts. As noted in Note 2, the Organization receives a substantial amount of its support from the Tennessee Department of Human Services. A change in the State's payment policy could have a significant impact on the timeliness of the Organization's ability to collect.

10. RESTRICTIONS ON NET ASSETS

Substantially all of the temporary restrictions on net assets at June 30, 2006 are related to funds raised through a capital campaign, a drive to raise funds for capital improvements. Permanently restricted assets consist of endowment fund investments to be held indefinitely, the income from which is reinvested in endowment investment assets.

11. BOARD DESIGNATED NET ASSETS

The Board of Directors has chosen to segregate funds contributed in honor of an employee who tragically lost her life. These funds are designated to be used for her surviving children, though the exact use of these funds has not been decided.

12. **FDIC LIMIT EXCEEDED**

At year end, the Organization's bank balances exceeded FDIC limits by $291,143. However, management believes this does not pose a significant risk.

12. **UNUSED LETTER OF CREDIT**

The Organization has an open letter of credit with AmSouth Bank. The balance at June 30, 2006 was $0. The credit limit is $100,000, and the interest rate is 8.5%.

-END OF NOTES-

McNEILLY CENTER FOR CHILDREN, INC.
AUDITOR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

PRIOR YEAR'S AUDIT FINDINGS

There were no prior year's audit findings.

CURRENT YEAR'S AUDIT FINDINGS

There are no current year audit findings.

- END OF FINDINGS -