McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
McNeilly Center for Children, Inc.
Nashville, TN

Report on the Financial Statements

We have audited the accompanying statement of financial position of McNeilly Center for Children, Inc. as of June 30, 2013 and the related statements of activities, functional expenses and cash flows for the year then ended.

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 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 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.

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, 2013, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of McNeilly Center for Children, Inc., Inc. taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of the Center's internal control over financial reporting and on our test 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 the 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 audit.

Cowart Reese Sargent

Cowart Reese Sargent
Certified Public Accountants, P.C.

December 17, 2013

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
June 30, 2013
(See Independent Auditors' Report)

	OPERATIONS		ENDOWMENT	
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Current Assets:				
Cash & Temporary Cash Investments (Notes 1 & 5)	$ -	$ 20,077	$ 9,430	$ 29,507
Tuition Receivable - Program Receivables	-	-	-	-
Accounts Receivable, net of allowance	118,091	-	-	118,091
Prepaid Expenses	27,735	-	-	27,735
Total Current Assets	145,826	20,077	9,430	175,333
Long Term Investments (Note 5)	-	-	368,525	368,525
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,402,594	-	-	1,402,594
Equipment	565,340	-	-	565,340
	2,033,523	-	-	2,033,523
Less accumulated depreciation	(1,237,303)	-	-	(1,237,303)
Net Fixed Assets	796,220	-	-	796,220
TOTAL ASSETS	942,046	20,077	377,955	1,340,078
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	27,188	-	-	27,188
Bank Overdraft	29,954			29,954
Accrued Salaries and Benefits	105,200	-	-	105,200
Unearned Grant Revenue	23,711	-	-	23,711
Prepaid Tuition	-	-	-	-
Line of Credit	247,000	-	-	247,000
Total Current Liabilities	433,053	-	-	433,053
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
TOTAL LIABILITIES	433,053	-	-	433,053
	-		-	
Net Assets				
Net Assets - undesignated	508,993	20,077	377,955	907,025
Net Assets - designated	-	-	-	-
TOTAL NET ASSETS	508,993	20,077	377,955	907,025
TOTAL LIABILITIES AND NET ASSETS	$ 942,046	$ 20,077	$ 377,955	$ 1,340,078

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Activities
For the Year Ended June 30, 2013
(See Independent 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	$ 302,697	$ -	$ -	$ 302,697
DHS Revenues	516,994	-	-	516,994
United Way	383,097	-	-	383,097
Client Fee	575,362	-	-	575,362
Special Events and Other Fund Raising	42,082	-	-	42,082
Grant Revenue	180,189	72,454	-	252,643
Gifts	108,953	-	-	108,953
HeadStart	266,432	-	-	266,432
Early HeadStart	437,360	-	-	437,360
Metro Social Services	6,477	-	-	6,477
Investment Income/(Loss) - Endowment (Net of Trust Fees $5,835)	13,050	-	14,029	27,079
Interest Income	23	-	-	23
Total Support and Revenue	2,832,716	72,454	14,029	2,919,199
Net Assets Released From Restrictions				
Satisfaction of donor restrictions	122,844	(122,844)	-	-
Total Earned Revenue and Support	2,955,560	(50,390)	14,029	2,919,199
EXPENSES				
Program Services:				
Day Care	2,849,628	-	-	2,849,628
Supporting Services:				
Management and General	229,193	-	-	229,193
Fund Raising	76,006	-	-	76,006
Total Expenses	3,154,827	-	-	3,154,827
Changes in Net Assets	(199,267)	(50,390)	14,029	(235,628)
Net Assets -				
Beginning of year	708,260	70,467	363,926	1,142,653
End of Year	$ 508,993	$ 20,077	$ 377,955	$ 907,025

The accompanying notes are an integral part of the financial statements

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Cash Flow
For the Year Ended June 30, 2013
(See Independent Auditors' Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Cash Flow from Operating Activities:				
Changes in net assets	$ (199,267)	$ (50,390)	$ 14,029	$ (235,628)
Adjustments to reconcile change in net assets to net cash used by				
Operating activities:				
Depreciation	64,563	-	-	64,563
(Gain)/Loss on Investments	(13,050)	-	(14,029)	(27,079)
Loss on the Disposal of assets	296	-	-	296
In-Kind Income	(41,972)	-	-	(41,972)
(Increase) Decrease in accounts and tuition receivable	50,022	-	-	50,022
(Increase) Decrease prepaid expenses	(798)	-	-	(798)
Increase (Decrease) in prepaid tuition	(1,248)	-	-	(1,248)
Increase (Decrease) in accounts payable	(8,353)	-	-	(8,353)
Increase (Decrease) in bank overdraft	29,954	-	-	29,954
Increase (Decrease) in Salaries and Wages payable	(1,741)	-	-	(1,741)
Increase (Decrease) in unearned revenue	-	(6,001)	-	(6,001)
Net cash provided (used) by operating activities	(121,594)	(56,391)	-	(177,985)
Cash Flow from Investing Activities:				
Purchase of Investments	-	-	(3,236)	(3,236)
Proceeds from Sales of Investments	38,012	-	-	38,012
Purchase of property and equipment	(69,010)	-	-	(69,010)
Net cash provided (used) by investing activities	(30,998)	-	(3,236)	(34,234)
Cash Flows from Financing Activities:				
Proceeds from Line of Credit	222,000	-	-	222,000
Repayments to Line of Credit	(105,000)	-	-	(105,000)
Net cash provided (used) by financing activities	117,000	-	-	117,000
Net increase (decrease) in cash and cash equivalents	(35,592)	(56,391)	(3,236)	(95,219)
Cash and cash equivalents at beginning of year	35,592	76,468	12,666	124,726
Cash and cash equivalents at end of year	$ -	$ 20,077	$ 9,430	$ 29,507

Supplemental Data:

Interest paid	$8,848
Income tax paid	$0

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Functional Expenses
For the Year Ended June 30, 2013
(See Independent Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	$ 1,737,352	$ 181,697	$ 60,233	$ 241,930	$ 1,979,282
Fringe Benefits	314,313	18,690	8,482	27,172	341,485
Total Personnel Expenses	2,051,665	200,387	68,715	269,102	2,320,767
Travel	7,838	950	-	950	8,788
Communication	6,501	1,861	255	2,116	8,617
Occupancy	242,985	5,329	760	6,089	249,074
Professional Services	4,739	16,949	609	17,558	22,297
Sports Facilitator & Tutoring	1,613	-	-	-	1,613
Supplies	87,040	536	258	794	87,834
Repairs & Maintenance	25,022	-	-	-	25,022
Food Costs	285,181	-	-	-	285,181
Printing & Publications	2,677	288	347	635	3,312
Postage	26	466	118	584	610
Bad Debt Expense	7,430	-	-	-	7,430
Training & Meetings	7,147	13	-	13	7,160
Enrichment / Field Trips	14,387	-	-	-	14,387
Dues & Licenses	11,581	450	-	450	12,031
Minor Equipment Purchases	13,274	479	-	479	13,753
Interest Expense	8,848	-	-	-	8,848
Miscellaneous	7,607	693	4,944	5,637	13,244
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	$ 2,785,561	$ 228,401	$ 76,006	$ 304,407	$ 3,089,968
Depreciation Expense	63,771	792	-	792	64,563
(Gain)/Loss on Disposal of Fixed Assets	296	-	-	-	296
TOTAL FUNCTIONAL EXPENSES	$ 2,849,628	$ 229,193	$ 76,006	$ 305,199	$ 3,154,827

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements
June 30, 2013

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.

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
June 30, 2013

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. Because of the inherent uncertainties in estimating, it is at least reasonably possible that the estimates used will change within the near term. 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. Additionally, a majority of the Organization's receivables are from these sources. Management is not aware of any planned changes in the level of funding.

3. TUITION RECEIVABLE - PROGRAM

At June 30, 2013 tuition and grants receivable from the following agencies were as follows:

Head Start / Early Head Start	$ 56,269
Metro Government	7,157
TDHS	35,995
Other	23,883
Allowance for Doubtful Accounts	(5,213)
Total	$ 118,091

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
June 30, 2013

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2012, through June 30,2013:

	Balance @ 7/1/12	Additions	Deletions	Balance @ 6/30/13
Land	$ 65,589	$ -	$ -	$ 65,589
Building	1,390,380	54,697	42,483	1,402,594
Equipment	528,658	56,285	19,603	565,340
Total	$ 1,984,627	$ 110,982	$ 62,086	$ 2,033,523

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 $64,563 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 Regions Morgan Keegan and The Community Foundation. The investments are subject to market risk and thusly could lose some or all of their value. Securities measured at fair value using Level 1 inputs, which are quoted prices in an active market. The historical costs and market (fair) values of the securities at June 30, 2013 are as follows:

Regions Morgan Keegan "Endowment" Account	Cost	June 30, 2013 Market Value	Unrealized Appreciation (Depreciation)
Invesco Diversified Fund	13,869	16,803	2,934
Invesco International Growth	12,005	12,373	368
American Century Small Cap	7,678	8,537	859
American Century Growth	15,835	16,654	819
Blackrock Equity Dividend Class	15,374	16,916	1,542
JP Morgan Mid Cap	7,359	8,504	1,145
High Mark Geneva Mid Cap	7,657	8,489	832
JP Morgan Large Cap	15,478	16,567	1,089
MFS Resh Intl Fund CL 1	11,516	12,274	758
Virtus Small-Mid Cap	7,717	8,666	949
Virtus Emerging Markets	7,733	7,821	88
Lord Abbet Short Duration	22,700	22,446	(254)
Metropolotan West Total Return	44,973	43,956	(1,017)
Pioneer Bond Fund Class Y	33,810	33,300	(510)
Templeton Global Bond Fund	10,753	10,845	92
Total	234,457	244,151	9,694
Community Foundation Account			
Community Foundation Account	112,374	124,373	11,999
Grand Total	$ 346,831	$ 368,524	$ 21,693

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
June 30, 2013

5. LONG-TERM INVESTMENTS (continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2013:

	Unrestricted	Permanently Restricted	Total
Interest & Dividend Income	$ -	$ 9,787	$ 9,787
Net Realized & Unrealized Gains (Losses)	13,050	10,077	23,127
Investment Fees	-	(5,835)	(5,835)
Total	$ 13,050	$ 14,029	$ 27,079

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, $52,907 of vacation leave was due to employees at June 30, 2013. 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, 2013 was $3,290.

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, 2013 was $0.

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.

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
June 30, 2013

10. RESTRICTIONS ON NET ASSETS

Substantially all of the temporary restrictions on net assets at June 30, 2013 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. LINE OF CREDIT

The Organization maintains an open line of credit with Renasant Bank. The line matures 9/30/13 and has the following terms: $250,000 maximum amount, interest rate of prime +1% with interest payments due monthly. As of June 30, 2013, the outstanding balance on the line was $247,000.

12. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 17, 2013, the date which the financial statements were available to be issued.

- END OF NOTES -

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
McNeilly Center for Children, Inc
Nashville, Tennessee

We have audited the financial statements of McNeilly Center for Children, Inc, (a Nonprofit organization) (McNeilly) as of and for the year ended June 30, 2013, and have issued our report thereon dated December 17, 2013. 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

Management of McNeilly is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered McNeilly'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 McNeilly's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McNeilly Center for Children, Inc 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 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 McNeilly Center for Children, 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 for the information of management and the Board of Directors, federal awarding agencies, pass through entities, and the State of Tennessee Office of the Comptroller and is not intended to be and should not be used by anyone other than those specified parties.

Cowart Reese Sargent

Cowart Reese Sargent, CPAs
Jackson, TN

December 17, 2013

McNEILLY CENTER FOR CHILDREN, INC.
AUDITORS' FINDINGS
FOR THE YEAR ENDED June 30, 2013

PRIOR YEAR'S AUDIT FINDINGS

None

CURRENT YEAR'S AUDIT FINDINGS

There were no current year audit findings.