

**FANNIE BATTLE DAY HOME FOR
CHILDREN, INC. AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2009 and 2008

**FANNIE BATTLE DAY HOME FOR
CHILDREN, INC. AND AFFILIATE**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fannie Battle Day Home for Children, Inc. and affiliate
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of Fannie Battle Day Home for Children, Inc. and affiliate (a nonprofit organization) as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fannie Battle Day Home for Children, Inc. and affiliate as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 16 through 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Frasier, Dean & Howard, PLLC

October 26, 2009

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

| | 2009 | 2008 |
|---------------------------------------|----------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 78,949 | \$ 108,391 |
| Investments | 1,113,597 | 1,431,100 |
| Accounts and contributions receivable | 65,142 | 87,787 |
| Prepaid expenses | 10,976 | 10,075 |
| Total current assets | <u>1,268,664</u> | <u>1,637,353</u> |
| Property and equipment: | | |
| Land | 173,464 | 173,464 |
| Buildings | 479,521 | 470,023 |
| Equipment | 178,351 | 177,233 |
| | <u>831,336</u> | <u>820,720</u> |
| Less: accumulated depreciation | <u>(427,969)</u> | <u>(400,969)</u> |
| Property and equipment, net | <u>403,367</u> | <u>419,751</u> |
| Total assets | <u><u>\$ 1,672,031</u></u> | <u><u>\$ 2,057,104</u></u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 5,730 | \$ 7,451 |
| Accrued expenses | 34,317 | 30,858 |
| Total liabilities | <u>40,047</u> | <u>38,309</u> |
| Net assets: | | |
| Board designated | 523,942 | 681,494 |
| Other unrestricted | 1,074,502 | 1,303,628 |
| Total unrestricted | 1,598,444 | 1,985,122 |
| Temporarily restricted | 33,540 | 33,673 |
| Total net assets | <u>1,631,984</u> | <u>2,018,795</u> |
| Total liabilities and net assets | <u><u>\$ 1,672,031</u></u> | <u><u>\$ 2,057,104</u></u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------------|-----------------------------------|----------------------------|
| Public support and revenues: | | | |
| Public support: | | | |
| Contributions | \$ 156,744 | \$ 33,540 | \$ 190,284 |
| Membership fund-raising activities | <u>64,118</u> | <u>-</u> | <u>64,118</u> |
| Total public support | <u>220,862</u> | <u>33,540</u> | <u>254,402</u> |
| Revenues: | | | |
| Grants | 86,992 | - | 86,992 |
| Day home fees | 309,719 | - | 309,719 |
| DHS food subsidies | 57,941 | - | 57,941 |
| Investment return, net | <u>(255,361)</u> | <u>-</u> | <u>(255,361)</u> |
| Total revenues | <u>199,291</u> | <u>-</u> | <u>199,291</u> |
| Net assets released from restrictions | <u>33,673</u> | <u>(33,673)</u> | <u>-</u> |
| Total public support and revenues | <u>453,826</u> | <u>(133)</u> | <u>453,693</u> |
| Expenses: | | | |
| Program services | 612,040 | - | 612,040 |
| Supporting services | <u>228,464</u> | <u>-</u> | <u>228,464</u> |
| Total expenses | <u>840,504</u> | <u>-</u> | <u>840,504</u> |
| Change in net assets | (386,678) | (133) | (386,811) |
| Net assets - beginning of year | <u>1,985,122</u> | <u>33,673</u> | <u>2,018,795</u> |
| Net assets - end of year | <u><u>\$ 1,598,444</u></u> | <u><u>\$ 33,540</u></u> | <u><u>\$ 1,631,984</u></u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|---------------------|
| Public support and revenues: | | | |
| Public support: | | | |
| Contributions | \$ 142,965 | \$ 33,673 | \$ 176,638 |
| Membership fund-raising activities | 79,546 | - | 79,546 |
| | <u>222,511</u> | <u>33,673</u> | <u>256,184</u> |
| Revenues: | | | |
| Grants | 94,660 | - | 94,660 |
| Day home fees | 285,070 | - | 285,070 |
| DHS food subsidies | 56,812 | - | 56,812 |
| Investment return, net | (28,377) | - | (28,377) |
| Gain on disposal of asset | 8,063 | - | 8,063 |
| Other | 2,250 | - | 2,250 |
| | <u>418,478</u> | <u>-</u> | <u>418,478</u> |
| Net assets released from restrictions | 119,029 | (119,029) | - |
| | <u>760,018</u> | <u>(85,356)</u> | <u>674,662</u> |
| Expenses: | | | |
| Program services | 621,449 | - | 621,449 |
| Supporting services | 170,100 | - | 170,100 |
| | <u>791,549</u> | <u>-</u> | <u>791,549</u> |
| Change in net assets | (31,531) | (85,356) | (116,887) |
| Net assets - beginning of year | 2,016,653 | 119,029 | 2,135,682 |
| Net assets - end of year | <u>\$ 1,985,122</u> | <u>\$ 33,673</u> | <u>\$ 2,018,795</u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2009

| | Program Services | Supporting Services | | | Total Expenses |
|-----------------------------------|---------------------|---------------------------|-------------------------------|-------------------|-------------------|
| | Day Home | Fundraising Activities | General and Administrative | Total | |
| Salaries | \$ 307,411 | \$ 47,840 | \$ 88,205 | \$ 136,045 | \$ 443,456 |
| Children's enrichment | 61,997 | - | - | - | 61,997 |
| Groceries | 50,626 | - | - | - | 50,626 |
| Repairs and maintenance | 46,013 | - | - | - | 46,013 |
| Employee benefits | 28,064 | 4,474 | 8,135 | 12,609 | 40,673 |
| Payroll taxes | 21,760 | 3,660 | 6,748 | 10,408 | 32,168 |
| Utilities | 31,191 | - | - | - | 31,191 |
| Legal and professional fees | - | - | 24,243 | 24,243 | 24,243 |
| 913 Project expenses | - | - | 19,199 | 19,199 | 19,199 |
| Insurance | 11,381 | - | 1,728 | 1,728 | 13,109 |
| Office supplies and expenses | - | - | 10,027 | 10,027 | 10,027 |
| Classroom expenses | 8,157 | - | - | - | 8,157 |
| Teacher and family education | 8,003 | - | - | - | 8,003 |
| Advertising and other fundraising | - | 6,228 | - | 6,228 | 6,228 |
| Auto expense | 5,841 | - | - | - | 5,841 |
| Printing | - | - | 3,170 | 3,170 | 3,170 |
| Security | 2,918 | - | - | - | 2,918 |
| Postage | - | - | 2,681 | 2,681 | 2,681 |
| Tuition reimbursement | - | - | 2,126 | 2,126 | 2,126 |
| Dues and subscriptions | 1,553 | - | - | - | 1,553 |
| Miscellaneous | 125 | - | - | - | 125 |
| | 585,040 | 62,202 | 166,262 | 228,464 | 813,504 |
| Depreciation | 27,000 | - | - | - | 27,000 |
| Total | <u>\$ 612,040</u> | <u>\$ 62,202</u> | <u>\$ 166,262</u> | <u>\$ 228,464</u> | <u>\$ 840,504</u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2008

| | Program Services | Supporting Services | | | Total Expenses |
|-----------------------------------|---------------------|---------------------------|-------------------------------|------------|-------------------|
| | Day Home | Fundraising Activities | General and Administrative | Total | |
| Salaries | \$ 330,301 | \$ 32,602 | \$ 53,915 | \$ 86,517 | \$ 416,818 |
| Children's enrichment | 72,730 | - | - | - | 72,730 |
| Groceries | 55,060 | - | - | - | 55,060 |
| Repairs and maintenance | 34,870 | - | - | - | 34,870 |
| Payroll taxes | 23,619 | 2,494 | 3,703 | 6,197 | 29,816 |
| Utilities | 28,883 | - | - | - | 28,883 |
| Legal and professional fees | - | - | 22,356 | 22,356 | 22,356 |
| 913 Project expenses | - | - | 19,347 | 19,347 | 19,347 |
| Employee benefits | 13,925 | 1,352 | 727 | 2,079 | 16,004 |
| Office supplies and expenses | - | - | 12,798 | 12,798 | 12,798 |
| Insurance | 10,513 | - | 1,728 | 1,728 | 12,241 |
| Classroom expenses | 10,653 | - | - | - | 10,653 |
| Advertising and other fundraising | - | 7,415 | - | 7,415 | 7,415 |
| Teacher and family education | 7,336 | - | - | - | 7,336 |
| Auto expense | 5,597 | - | - | - | 5,597 |
| Tuition reimbursement | - | - | 4,565 | 4,565 | 4,565 |
| Printing | - | - | 3,868 | 3,868 | 3,868 |
| Security | 2,881 | - | - | - | 2,881 |
| Postage | - | - | 2,453 | 2,453 | 2,453 |
| Miscellaneous | 648 | - | 777 | 777 | 1,425 |
| Dues and subscriptions | 998 | - | - | - | 998 |
| | 598,014 | 43,863 | 126,237 | 170,100 | 768,114 |
| Depreciation | 23,435 | - | - | - | 23,435 |
| Total | \$ 621,449 | \$ 43,863 | \$ 126,237 | \$ 170,100 | \$ 791,549 |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|------------------|-------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (386,811) | \$ (116,887) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Contribution of investments | (1,291) | - |
| Depreciation | 27,000 | 23,435 |
| Realized and unrealized loss on investments, net | 284,334 | 72,781 |
| Gain on disposal of asset | - | (8,063) |
| Changes in operating assets and liabilities: | | |
| Accounts and contributions receivable | 22,645 | 7,105 |
| Prepaid expenses | (901) | 602 |
| Accounts payable | (1,721) | 5,807 |
| Accrued expenses | 3,459 | (4,221) |
| Total adjustments | <u>333,525</u> | <u>97,446</u> |
| Net cash used in operating activities | <u>(53,286)</u> | <u>(19,441)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of asset | - | 83,063 |
| Proceeds from sale of investments | 108,302 | 47,612 |
| Purchase of investments | (73,842) | (67,376) |
| Purchase of property and equipment | <u>(10,616)</u> | <u>(13,462)</u> |
| Net cash provided by investing activities | <u>23,844</u> | <u>49,837</u> |
| Net (decrease) increase in cash and cash equivalents | (29,442) | 30,396 |
| Cash and cash equivalents - beginning of year | <u>108,391</u> | <u>77,995</u> |
| Cash and cash equivalents - end of year | <u>\$ 78,949</u> | <u>\$ 108,391</u> |
| Supplemental disclosure: | | |
| Contributed investments | <u>\$ 1,291</u> | <u>\$ -</u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Fannie Battle Day Home for Children, Inc. (the “Organization”) is a not-for-profit corporation that maintains and operates a day home for the instruction and care of children of working parents and/or parents pursuing an education.

Principles of Consolidation

The financial statements include the accounts of the Fannie Battle Day Home for Children, Inc. and its affiliated supporting organization, Fannie Battle Day Home Endowment Fund, Inc. All significant inter-entity transactions and balances have been eliminated in consolidation.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. Contributions which are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent during the same fiscal year as permitted by SFAS No. 116.

Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the consolidated statements of activities.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values

The Organization has an established process for determining fair values. Fair values are based upon quoted market prices, where available. If listed prices or quotes are not available, fair values are based upon internally developed models or processes that use primarily market-based or independently-sourced market data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Receivables

Accounts and contributions receivable are reviewed periodically as to their collectability. Based on collection experience and management's review, no allowance for doubtful accounts is considered necessary at June 30, 2009 and 2008.

Income Tax Status

The Organization and its affiliated supporting organization are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, and are classified as organizations that are not private foundations as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying consolidated financial statements.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

Endowment Funds

During 2008, the Staff of the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“FSP 117-1”). The FSP clarifies that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not permanently restricted by the donor or by law as temporarily restricted net assets (time restricted) until it is appropriated for expenditure and donor-imposed purpose restrictions, if any, are met. When the purpose restrictions, if any, on the portion of donor-restricted endowment funds are met and the appropriation has occurred, temporarily restricted net assets are reclassified to unrestricted net assets. FSP 117-1 also required additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of the organization’s policies for making appropriations for expenditures from endowment funds (i.e. the organization’s endowment spending policies), b) a description of the organization’s investment policies for endowment funds, c) a description of the organization’s endowment by net asset class at the end of the period in total and by type of endowment fund, d) a reconciliation of the beginning and ending balances of endowment funds in total and by net asset class, and e) a description of the organization’s interpretation of the law(s) underlying the net asset classification of donor-restricted endowment funds. The Organization has implemented this pronouncement and is now providing the expanded disclosures as of June 30, 2009.

NOTE 2 – CONCENTRATIONS

Cash and investments include funds deposited in federally insured bank accounts. Balances on deposit may at times exceed federally insured limits.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 3 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30:

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| Operating resources in next fiscal year | \$ 33,540 | \$ 33,673 |

Board designated net assets are available for the following purpose at June 30:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------|-------------|-------------|
| Board designated endowment fund | \$ 523,942 | \$ 681,494 |

NOTE 4 – DHS SUBSIDIES

The Organization receives monthly subsidies under the Department of Human Services (“DHS”) Food Nutrition and Child Assistance Programs. For the years ended June 30, 2009 and 2008, the Organization received \$273,222 and \$247,225 in subsidies, respectively, which are included in the accompanying consolidated statements of activities in DHS food subsidies and Day home fees. The Organization intends to reapply to DHS for continuation of the subsidies when the current contracts expire. At June 30, 2009 and 2008, there was a subsidy receivable of \$26,125 and \$45,504, respectively.

NOTE 5 – INVESTMENTS

Investments are stated at fair value, with fair value determined based on active markets (Level 1), and consist of the following at June 30:

| | <u>2009</u> | <u>2008</u> |
|------------------------------|---------------------|---------------------|
| Corporate debt securities | \$ 22,896 | \$ 33,399 |
| Government backed securities | 65,178 | 60,161 |
| Equity funds | 869,768 | 1,255,251 |
| Certificates of deposit | <u>155,755</u> | <u>82,289</u> |
| | <u>\$ 1,113,597</u> | <u>\$ 1,431,100</u> |

The following schedule summarizes the investment return for the year ended June 30:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|--------------------|
| Interest and dividends | \$ 28,973 | \$ 44,404 |
| Realized and unrealized gains (losses) | <u>(284,334)</u> | <u>(72,781)</u> |
| | <u>\$ (255,361)</u> | <u>\$ (28,377)</u> |

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which range from forty years for buildings to three years for equipment. Expenditures for repairs and maintenance are charged to expense as incurred.

NOTE 7 – CONTRIBUTED SERVICES

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the consolidated statements of activities because the criteria for recognition under generally accepted accounting principles has not been satisfied.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) profit sharing plan covering all employees who are at least 21 years old and have completed the eligibility requirements. Employees may defer a portion of their compensation into the plan in accordance with the plan document. The Organization's contribution to the plan is determined annually by the board of directors. The retirement plan expense for the years ended June 30, 2009 and 2008 was \$12,000 and \$6,000, respectively.

NOTE 9 – FUNDRAISING

The following is a summary of fundraising contributions received and expenses incurred for each major fundraising activity:

| | 2009 | | | 2008 | | |
|----------|-----------------------------|------------------------|-------------------|-----------------------------|------------------------|-------------------|
| | <u>Contributions</u> | <u>Expenses</u> | <u>Net</u> | <u>Contributions</u> | <u>Expenses</u> | <u>Net</u> |
| Caroling | \$ 46,811 | \$ 5,221 | \$ 41,590 | \$ 61,797 | \$ 6,576 | \$ 55,221 |
| Other | <u>17,307</u> | <u>1,007</u> | <u>16,300</u> | <u>17,749</u> | <u>839</u> | <u>16,910</u> |
| | <u>\$ 64,118</u> | <u>\$ 6,228</u> | <u>\$ 57,890</u> | <u>\$ 79,546</u> | <u>\$ 7,415</u> | <u>\$ 72,131</u> |

NOTE 10 – ENDOWMENT FUND

The Fannie Battle Day Home Endowment Fund, Inc. ("Endowment") was established effective May 16, 2001. Endowment was established as a separate 501(c)(3) entity to assist management of the Organization in the exercise of its fiduciary duty related to board designated endowment investments. The financial statements of Endowment are consolidated with those of the Organization in the accompanying consolidated financial statements as the Organization controls Endowment through the appointment of its board of directors.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 10 – ENDOWMENT FUND (Continued)

As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. The board of directors has interpreted the UPMIFA as requiring that the Organization classify as permanently restricted net assets a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of subsequent donor-restricted gifts to the permanent endowment, and c) accumulations (interest, dividends, capital gain/loss) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Board designated endowment funds | \$ 523,942 | \$ - | \$ - | \$ 523,942 |

Changes in Endowment Net Assets for the year ended June 30, 2009:

| | | | | |
|---|-------------------|-------------|-------------|-------------------|
| Endowment net assets, beginning of year | \$ 681,494 | \$ - | \$ - | \$ 681,494 |
| Investment return: Net depreciation (realized and unrealized) | <u>(157,552)</u> | <u>-</u> | <u>-</u> | <u>(157,552)</u> |
| Endowment net assets, end of year | <u>\$ 523,942</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 523,942</u> |

Endowment Net Asset Composition by Type of Fund as of June 30, 2008:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Board designated endowment funds | \$ 681,494 | \$ - | \$ - | \$ 681,494 |

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 10 – ENDOWMENT FUND (Continued)

Changes in Endowment Net Assets for the year ended June 30, 2008:

| | | | | |
|---|-------------------|-------------|-------------|-------------------|
| Endowment net assets, beginning of year | \$ 696,601 | \$ - | \$ - | \$ 696,601 |
| Investment return: | | | | |
| Net depreciation (realized and unrealized) | <u>(15,107)</u> | <u>-</u> | <u>-</u> | <u>(15,107)</u> |
| Endowment net assets, end of year | <u>\$ 681,494</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 681,494</u> |

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are to be invested primarily in equities, fixed income investments and cash securities. However, neither equities by themselves, nor fixed income investments by themselves should exceed 75% of the investment balance.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating, no more often than quarterly, dividend and interest income from the endowment fund.

SUPPLEMENTAL INFORMATION

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2009

| | <u>Organization</u> | <u>Endowment</u> | <u>Consolidated</u> |
|---------------------------------------|---------------------|-------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 78,542 | \$ 407 | \$ 78,949 |
| Investments | 590,062 | 523,535 | 1,113,597 |
| Accounts and contributions receivable | 65,142 | - | 65,142 |
| Prepaid expenses | 10,976 | - | 10,976 |
| Total current assets | <u>744,722</u> | <u>523,942</u> | <u>1,268,664</u> |
| Property and equipment: | | | |
| Land | 173,464 | - | 173,464 |
| Buildings | 479,521 | - | 479,521 |
| Equipment | 178,351 | - | 178,351 |
| | <u>831,336</u> | <u>-</u> | <u>831,336</u> |
| Less: accumulated depreciation | <u>(427,969)</u> | <u>-</u> | <u>(427,969)</u> |
| Property and equipment, net | <u>403,367</u> | <u>-</u> | <u>403,367</u> |
| Total assets | <u>\$ 1,148,089</u> | <u>\$ 523,942</u> | <u>\$ 1,672,031</u> |
| Liabilities and Net Assets | | | |
| Liabilities: | | | |
| Accounts payable | \$ 5,730 | \$ - | \$ 5,730 |
| Accrued expenses | 34,317 | - | 34,317 |
| Total liabilities | <u>40,047</u> | <u>-</u> | <u>40,047</u> |
| Net assets: | | | |
| Board designated | - | 523,942 | 523,942 |
| Other unrestricted | 1,074,502 | - | 1,074,502 |
| Total unrestricted | <u>1,074,502</u> | <u>523,942</u> | <u>1,598,444</u> |
| Temporarily restricted | <u>33,540</u> | <u>-</u> | <u>33,540</u> |
| Total net assets | <u>1,108,042</u> | <u>523,942</u> | <u>1,631,984</u> |
| Total liabilities and net assets | <u>\$ 1,148,089</u> | <u>\$ 523,942</u> | <u>\$ 1,672,031</u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2009

| | <u>Organization</u> | <u>Endowment</u> | <u>Consolidating Entries</u> | <u>Consolidated</u> |
|------------------------------------|---------------------|---------------------|----------------------------------|---------------------|
| Public support and revenues: | | | | |
| Public support: | | | | |
| Contributions | \$ 190,284 | \$ - | \$ - | \$ 190,284 |
| Membership fund-raising activities | 64,118 | - | - | 64,118 |
| Total public support | 254,402 | - | - | 254,402 |
| Revenues: | | | | |
| Day home fees | 309,719 | - | - | 309,719 |
| Grants | 86,992 | - | - | 86,992 |
| DHS food subsidies | 57,941 | - | - | 57,941 |
| Investment return, net | (109,274) | (146,087) | - | (255,361) |
| Other | 11,465 | - | (11,465) | - |
| Total revenues | 356,843 | (146,087) | (11,465) | 199,291 |
| Total public support and revenues | 611,245 | (146,087) | (11,465) | 453,693 |
| Expenses: | | | | |
| Contributions to Day Home | - | 11,465 | (11,465) | - |
| Program services | 612,040 | - | - | 612,040 |
| Supporting services | 228,464 | - | - | 228,464 |
| Total expenses | 840,504 | 11,465 | (11,465) | 840,504 |
| Change in net assets | <u>\$ (229,259)</u> | <u>\$ (157,552)</u> | <u>\$ -</u> | <u>\$ (386,811)</u> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2008

| | <u>Organization</u> | <u>Endowment</u> | <u>Consolidated</u> |
|---------------------------------------|---------------------|-------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 107,361 | \$ 1,030 | \$ 108,391 |
| Investments | 750,636 | 680,464 | 1,431,100 |
| Accounts and contributions receivable | 87,787 | - | 87,787 |
| Prepaid expenses | 10,075 | - | 10,075 |
| | <hr/> | <hr/> | <hr/> |
| Total current assets | 955,859 | 681,494 | 1,637,353 |
| | <hr/> | <hr/> | <hr/> |
| Property and equipment: | | | |
| Land | 173,464 | - | 173,464 |
| Buildings | 470,023 | - | 470,023 |
| Equipment | 177,233 | - | 177,233 |
| | <hr/> | <hr/> | <hr/> |
| | 820,720 | - | 820,720 |
| | <hr/> | <hr/> | <hr/> |
| Less: accumulated depreciation | (400,969) | - | (400,969) |
| | <hr/> | <hr/> | <hr/> |
| Property and equipment, net | 419,751 | - | 419,751 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | <u>\$ 1,375,610</u> | <u>\$ 681,494</u> | <u>\$ 2,057,104</u> |
| | <hr/> | <hr/> | <hr/> |
| Liabilities and Net Assets | | | |
| Liabilities: | | | |
| Accounts payable | \$ 7,451 | \$ - | \$ 7,451 |
| Accrued expenses | 30,858 | - | 30,858 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities | 38,309 | - | 38,309 |
| | <hr/> | <hr/> | <hr/> |
| Net assets: | | | |
| Board designated | - | 681,494 | 681,494 |
| Other unrestricted | 1,303,628 | - | 1,303,628 |
| | <hr/> | <hr/> | <hr/> |
| Total unrestricted | 1,303,628 | 681,494 | 1,985,122 |
| | <hr/> | <hr/> | <hr/> |
| Temporarily restricted | 33,673 | - | 33,673 |
| | <hr/> | <hr/> | <hr/> |
| Total net assets | 1,337,301 | 681,494 | 2,018,795 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities and net assets | <u>\$ 1,375,610</u> | <u>\$ 681,494</u> | <u>\$ 2,057,104</u> |
| | <hr/> | <hr/> | <hr/> |

See accompanying notes.

FANNIE BATTLE DAY HOME FOR CHILDREN, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

| | <u>Organization</u> | <u>Endowment</u> | <u>Consolidating Entries</u> | <u>Consolidated</u> |
|------------------------------------|---------------------|--------------------|----------------------------------|---------------------|
| Public support and revenues: | | | | |
| Public support: | | | | |
| Contributions | \$ 176,188 | \$ 450 | \$ - | \$ 176,638 |
| Membership fund-raising activities | 79,546 | - | - | 79,546 |
| Total public support | <u>255,734</u> | <u>450</u> | <u>-</u> | <u>256,184</u> |
| Revenues: | | | | |
| Grants | 94,660 | - | - | 94,660 |
| Day home fees | 285,070 | - | - | 285,070 |
| DHS food subsidies | 56,812 | - | - | 56,812 |
| Investment return, net | (29,335) | 958 | - | (28,377) |
| Gain on disposal of asset | 8,063 | - | - | 8,063 |
| Other | 18,765 | - | (16,515) | 2,250 |
| Total revenues | <u>434,035</u> | <u>958</u> | <u>(16,515)</u> | <u>418,478</u> |
| Total public support and revenues | <u>689,769</u> | <u>1,408</u> | <u>(16,515)</u> | <u>674,662</u> |
| Expenses: | | | | |
| Contributions to Day Home | - | 16,515 | (16,515) | - |
| Program services | 621,449 | - | - | 621,449 |
| Supporting services | 170,100 | - | - | 170,100 |
| Total expenses | <u>791,549</u> | <u>16,515</u> | <u>(16,515)</u> | <u>791,549</u> |
| Change in net assets | <u>\$ (101,780)</u> | <u>\$ (15,107)</u> | <u>\$ -</u> | <u>\$ (116,887)</u> |

See accompanying notes.