McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012

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CØWART REESE
SARGENT
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of McNeilly Center for Children, Inc. (a nonprofit organization) as of June 30, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 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.

September 27, 2012

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McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
June 30, 2012
(See Auditors' Report)

	OPERATIONS		ENDOWMENT	
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Current Assets:				
Cash & Temporary Cash Investments (Notes 1 & 5)	$ 35,592	$ 76,468	$ 12,666	$ 124,726
Tuition Receivable - Program Receivables	-	-	-	-
Accounts Receivable, net of allowance	169,361	-	-	169,361
Prepaid Expenses	26,937	-	-	26,937
Total Current Assets	231,890	76,468	12,666	321,024
Long Term Investments (Note 5)	-	-	351,260	351,260
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,390,380	-	-	1,390,380
Equipment	528,658	-	-	528,658
	1,984,627	-	-	1,984,627
Less accumulated depreciation	(1,234,529)	-	-	(1,234,529)
Net Fixed Assets	750,098	-	-	750,098
TOTAL ASSETS	981,988	76,468	363,926	1,422,382
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	35,539	-	-	35,539
Accrued Salaries and Benefits	106,941	-	-	106,941
Unearned Grant Revenue	-	6,001	-	6,001
Prepaid Tuition	1,248	-	-	1,248
Line of Credit	130,000	-	-	130,000
Total Current Liabilities	273,728	6,001	-	279,729
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
TOTAL LIABILITIES	273,728	6,001	-	279,729
	-		-	
Net Assets				
Net Assets - undesignated	706,705	70,467	363,926	1,141,098
Net Assets - designated	1,555	-	-	1,555
TOTAL NET ASSETS	708,260	70,467	363,926	1,142,653
TOTAL LIABILITIES AND NET ASSETS	$ 981,988	$ 76,468	$ 363,926	$ 1,422,382

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Activity
For the Year Ended June 30, 2012
(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	$ 317,650	$ -	$ -	$ 317,650
DHS Revenues	750,954	-	-	750,954
United Way	381,058	-	-	381,058
Client Fee	581,820	-	-	581,820
Special Events and Other Fund Raising	63,473	-	-	63,473
Grant Revenue	159,000	175,724	-	334,724
Gifts	101,226	-	-	101,226
HeadStart	268,947	-	-	268,947
Early HeadStart	446,389	-	-	446,389
Metro Social Services	5,083	-	-	5,083
Investment Income/(Loss) - Endowment (Net of Trust Fees $5,989)	11,029	-	(11,591)	(562)
Interest Income	60	-	-	60
Total Support and Revenue	3,086,689	175,724	(11,591)	3,250,822
Net Assets Released From Restrictions				
Satisfaction of donor restrictions	124,879	(124,879)	-	-
Total Earned Revenue and Support	3,211,568	50,845	(11,591)	3,250,822
EXPENSES				
Program Services:				
Day Care	3,089,335	-	-	3,089,335
Supporting Services:				
Management and General	228,302	-	-	228,302
Fund Raising	78,430	-	-	78,430
Total Expenses	3,396,067	-	-	3,396,067
Changes in Net Assets	(184,499)	50,845	(11,591)	(145,245)
Net Assets -				
Beginning of year	892,759	19,622	375,517	1,287,898
End of Year	$ 708,260	$ 70,467	$ 363,926	$ 1,142,653

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Cash Flow
For the Year Ended June 30, 2012
(See Auditors' Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Cash Flow from Operating Activities:				
Changes in net assets	$ (184,499)	$ 50,845	$ (11,591)	$ (145,245)
Adjustments to reconcile change in net assets to net cash used by				
Operating activities:				
Depreciation	67,248	-	-	67,248
(Gain)/Loss on Investments	(11,029)	-	11,591	562
Loss on the Disposal of assets	388	-	-	388
In-Kind Income	(11,500)	-	-	(11,500)
(Increase) Decrease in accounts and tuition receivable	(12,085)	-	-	(12,085)
(Increase) Decrease prepaid expenses	2,948	-	-	2,948
Increase (Decrease) in prepaid tuition	3,826	-	-	3,826
Increase (Decrease) in accounts payable	4,287	-	-	4,287
Increase (Decrease) in Salaries and Wages payable	4,455	-	-	4,455
Increase (Decrease) in unearned revenue	-	(477)	-	(477)
Net cash provided (used) by operating activities	(135,961)	50,368	-	(85,593)
Cash Flow from Investing Activities:				
Purchase of Investments	(38,965)	-	(3,501)	(42,466)
Proceeds from Sales of Investments	57,669	-	-	57,669
Purchase of property and equipment	(7,115)	-	-	(7,115)
Net cash provided (used) by investing activities	11,589	-	(3,501)	8,088
Cash Flows from Financing Activities:				
Proceeds from Line of Credit	130,000	-	-	130,000
Net cash provided (used) by financing activities	130,000	-	-	130,000
Net increase (decrease) in cash and cash equivalents	5,628	50,368	(3,501)	52,495
Cash and cash equivalents at beginning of year	29,964	26,100	16,167	72,231
Cash and cash equivalents at end of year	$ 35,592	$ 76,468	$ 12,666	$ 124,726
	-	-	-	-

Supplemental Data:

Interest paid	$0
Income tax paid	$0

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Functional Expenses
For the Year Ended June 30, 2012
(See Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	$ 1,863,388	$ 175,835	$ 60,572	$ 236,407	$ 2,099,795
Fringe Benefits	344,456	20,972	7,555	28,527	372,983
Total Personnel Expenses	2,207,844	196,807	68,127	264,934	2,472,778
Travel	3,631	984	-	984	4,615
Communication	9,307	1,962	274	2,236	11,543
Occupancy	262,505	5,067	905	5,972	268,477
Professional Services	1,764	18,854	646	19,500	21,264
Sports Faciliator & Tutoring	19,373	-	-	-	19,373
Supplies	83,665	423	50	473	84,138
Repairs & Maintenance	41,655	-	-	-	41,655
Food Costs	291,933	-	-	-	291,933
Printing & Publications	1,118	173	1,695	1,868	2,986
Postage	15	675	22	697	712
Bad Debt Expense	7,452	-	-	-	7,452
Training & Meetings	4,956	105	-	105	5,061
Enrichment / Field Trips	6,992	-	-	-	6,992
Dues & Licenses	5,935	450	-	450	6,385
Minor Equipment Purchases	21,579	-	-	-	21,579
Interest Expense	758	-	-	-	758
Miscellaneous	52,781	1,238	6,711	7,949	60,730
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	$ 3,023,263	$ 226,738	$ 78,430	$ 305,168	$ 3,328,431
Depreciation Expense	65,684	1,564	-	1,564	67,248
(Gain)/Loss on Disposal of Fixed Assets	388	-	-	-	388
TOTAL FUNCTIONAL EXPENSES	$ 3,089,335	$ 228,302	$ 78,430	$ 306,732	$ 3,396,067

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements
June 30, 2012

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, 2012

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, 2012 tuition and grants receivable from the following agencies were as follows:

Head Start / Early Head Start	$ 56,117
Metro Government	28,548
TDHS	54,304
Other	32,142
Allowance for Doubtful Accounts	(1,750)
Total	$ 169,361

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
June 30, 2012

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2011, through June 30,2012:

	Balance @ 7/1/11	Additions	Deletions	Balance @ 6/30/11
Land	$ 65,589	$ -	$ -	$ 65,589
Building	1,401,366	5,200	14,824	1,391,742
Equipment	531,105	1,915	5,724	527,296
Total	$ 1,998,060	$ 7,115	$ 20,548	$ 1,984,627

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 $67,248 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, 2012 are as follows:

		30-Jun-12	
Regions Morgan Keegan "Endowment" Account	Cost	Market Value	Unrealized Appreciation (Depreciation)
Invesco Diversified Dividend Fund	17,795	17,991	196
Artisan Funds Inc. - Small Cap Value	3,919	4,358	439
Artisan Funds Inc. - Mid Cap Value	3,750	4,392	642
Buffalo Small Cap Fund	3,417	4,504	1,087
Dodge & Cox	15,174	17,973	2,799
American Europacific Growth	14,514	14,583	69
Highmark Geneva Mid Cap	4,119	4,291	172
Mainstay Funds Large Cap	15,413	17,047	1,634
Principal L/C Growth Funds	13,776	17,440	3,664
Thornburg Intl Value Fund	14,381	14,435	54
Dodge & Cox Income Fund	51,735	53,009	1,274
Federated Total Return	42,034	42,601	567
Vanguard Short Term Bond Fund	10,673	10,662	(11)
Templeton Global Bond Fund	11,929	11,839	(90)
Total	222,629	235,125	12,496
Regions Morgan Keegan "Rainy Day" Account			
Pioneer Short Term Income	-	-	-
Total	-	-	-
Community Foundation Account			
Community Foundation Account	109,140	116,135	6,995
Grand Total	$ 331,769	$ 351,260	$ 19,491

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
June 30, 2012

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, 2012:

	Unrestricted	Permanently Restricted	Total
Interest & Dividend Income	$ -	$ 7,918	$ 7,918
Net Realized & Unrealized Gains (Losses)	11,051	(13,542)	(2,491)
Investment Fees	(22)	(5,967)	(5,989)
Total	$ 11,029	$ (11,591)	$ (562)

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, $53,182 of vacation leave was due to employees at June 30, 2012. 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, 2012 was $7,390.

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, 2012 was $20,484.

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, 2012

10. RESTRICTIONS ON NET ASSETS

Substantially all of the temporary restrictions on net assets at June 30, 2012 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 9/30/12 and has the following terms: $250,000 maximum amount, interest rate of prime +1% with interest payments due monthly. As of June 30, 2102, the outstanding balance on the line was $130,000.

12. SUBSEQUENT EVENTS

The Organization is in process of appealing a penalty recently received based on an inspection by the Tennessee Department of Human Services. If the penalty is upheld, it is reasonably possible that it would have a negative impact on the Organization's funding. Management feels that their case is strong and that the appeal will end favorably.

The Organization has evaluated subsequent events through September 27, 2012, the date which the financial statements were available to be issued.

- END OF NOTES -

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, 2012, and have issued our report thereon dated September 27, 2012. 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

September 27, 2012

McNEILLY CENTER FOR CHILDREN, INC.
AUDITOR'S FINDINGS
FOR THE YEAR ENDED June 30, 2012

PRIOR YEAR'S AUDIT FINDINGS

None

CURRENT YEAR'S AUDIT FINDINGS

There were no current year audit findings.