

McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2010

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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, 2010, 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, 2010, 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 Reese Sargent
Certified Public Accountants, P.C.

November 11, 2010

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
June 30, 2010
(See Auditors' Report)

<u>ASSETS</u>	<u>OPERATIONS</u>		<u>ENDOWMENT</u>	<u>TOTAL</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Current Assets:				
Cash & Temporary Cash Investments (Notes 1 & 5)	\$ 78,541	\$ 26,100	\$ 12,728	\$ 117,369
Tuition Receivable - Program Receivables	-	-	-	-
Accounts Receivable	231,395	-	-	231,395
Allowance for Bad Debts	(1,101)	-	-	(1,101)
Prepaid Expenses	32,728	-	-	32,728
Total Current Assets	341,563	26,100	12,728	380,391
Long Term Investments (Note 5)	45,591	-	380,733	426,324
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,395,450	-	-	1,395,450
Equipment	507,442	-	-	507,442
	1,968,481	-	-	1,968,481
Less accumulated depreciation	(1,121,095)	-	-	(1,121,095)
Net Fixed Assets	847,386	-	-	847,386
TOTAL ASSETS	1,234,540	26,100	393,461	1,654,101
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	33,075	-	-	33,075
Accrued Salaries and Benefits	153,589	-	-	153,589
Unearned Grant Revenue	-	7,993	-	7,993
Prepaid Tuition	2,478	-	-	2,478
Total Current Liabilities	189,142	7,993	-	197,135
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
TOTAL LIABILITIES	189,142	7,993	-	197,135
Net Assets				
Net Assets - undesignated	985,097	18,107	393,461	1,396,665
Net Assets - designated	60,301	-	-	60,301
TOTAL NET ASSETS	1,045,398	18,107	393,461	1,456,966
TOTAL LIABILITIES AND NET ASSETS	\$ 1,234,540	\$ 26,100	\$ 393,461	\$ 1,654,101

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, 2010
(See Auditors' Report)

	<u>OPERATIONS</u>		<u>ENDOWMENT</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
<u>PUBLIC SUPPORT & REVENUE</u>				
U.S. Dept. of Agriculture, passed through Tenn. Dept. of Human Services:				
Child Care Food Program	\$ 313,663	\$ -	\$ -	\$ 313,663
DHS Revenues	1,496,420	-	-	1,496,420
United Way	381,100	-	-	381,100
Client Fee	598,582	-	-	598,582
Special Events and Other Fund Raising	68,543	-	-	68,543
Grant Revenue	76,066	190,528	-	266,594
Gifts	89,708	-	568	90,276
HeadStart	256,418	-	-	256,418
Early HeadStart	49,380	-	-	49,380
Metro Social Services	18,576	-	-	18,576
Investment Income/(Loss) - Endowment (Net of Trust Fees \$5,954)	6,416	-	49,715	56,131
Interest Income	1,831	-	-	1,831
Total Support and Revenue	3,356,703	190,528	50,283	3,597,514
Net Assets Released From Restrictions				
Satisfaction of donor restrictions	172,421	(172,421)	-	-
Total Earned Revenue and Support	3,529,124	18,107	50,283	3,597,514
<u>EXPENSES</u>				
Program Services:				
Day Care	3,335,720	-	-	3,335,720
Supporting Services:				
Management and General	226,151	-	-	226,151
Fund Raising	52,854	-	-	52,854
Total Expenses	3,614,725	-	-	3,614,725
Changes in Net Assets	(85,601)	18,107	50,283	(17,211)
Net Assets -				
Beginning of year	1,130,999	-	343,178	1,474,177
End of Year	\$ 1,045,398	\$ 18,107	\$ 393,461	\$ 1,456,966

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, 2010
(See Auditors' Report)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
Cash Flow from Operating Activities:				
Changes in net assets	\$ (85,601)	\$ 18,107	\$ 50,283	\$ (17,211)
Adjustments to reconcile change in net assets to net cash used by				
Operating activities:				
Depreciation	78,642	-	-	78,642
(Gain)/Loss on Investments	(6,416)	-	(49,715)	(56,131)
Loss on the Disposal of assets	832	-	-	832
In-Kind Income	(4,280)	-	-	(4,280)
(Increase) Decrease in accounts and tuition receivable	(32,690)	-	-	(32,690)
(Increase) Decrease prepaid expenses	(1,709)	-	-	(1,709)
Increase (Decrease) in prepaid tuition	2,478	-	-	2,478
Increase (Decrease) in accounts payable	(3,502)	-	-	(3,502)
Increase (Decrease) in Salaries and Wages payable	(28,777)	-	-	(28,777)
Increase (Decrease) in unearned revenue	-	(49,310)	-	(49,310)
Net cash provided (used) by operating activities	<u>(81,023)</u>	<u>(31,203)</u>	<u>568</u>	<u>(111,658)</u>
Cash Flow from Investing Activities:				
Purchase of Investments	(2,735)	-	(309,464)	(312,199)
Proceeds from Sales of Investments	-	-	316,526	316,526
Purchase of property and equipment	-	-	-	-
Net cash provided (used) by investing activities	<u>(2,735)</u>	<u>-</u>	<u>7,062</u>	<u>4,327</u>
Cash Flows from Financing Activities:				
Increase (Decrease) in Long-Term Debt	-	-	-	-
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(83,758)	(31,203)	7,630	(107,331)
Cash and cash equivalents at beginning of year	<u>162,299</u>	<u>57,303</u>	<u>5,098</u>	<u>224,700</u>
Cash and cash equivalents at end of year	<u>\$ 78,541</u>	<u>\$ 26,100</u>	<u>\$ 12,728</u>	<u>\$ 117,369</u>
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, 2010
(See Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	\$ 1,969,075	\$ 171,032	\$ 40,179	\$ 211,211	\$ 2,180,286
Fringe Benefits	450,269	26,273	5,443	31,716	481,985
Total Personnel Expenses	<u>2,419,344</u>	<u>197,305</u>	<u>45,622</u>	<u>242,927</u>	<u>2,662,271</u>
Travel	5,423	946	83	1,029	6,452
Communication	8,821	1,311	272	1,583	10,404
Occupancy	237,697	4,730	2,410	7,140	244,837
Professional Services	3,731	14,323	524	14,847	18,578
Sports Faciliator & Tutoring	30,034	-	-	-	30,034
Supplies	123,991	787	264	1,051	125,042
Repairs & Maintenance	36,999	-	-	-	36,999
Food Costs	273,619	-	-	-	273,619
Printing & Publications	5,750	90	677	767	6,517
Postage	11	586	22	608	619
Bad Debt Expense	8,000	-	-	-	8,000
Training & Meetings	6,062	583	44	627	6,689
Enrichment / Field Trips	20,857	-	-	-	20,857
Dues & Licenses	3,596	400	-	400	3,996
Minor Equipment Purchases	7,169	-	-	-	7,169
Miscellaneous	68,425	1,807	2,936	4,743	73,168
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	<u>\$ 3,259,529</u>	<u>\$ 222,868</u>	<u>\$ 52,854</u>	<u>\$ 275,722</u>	<u>\$ 3,535,251</u>
Depreciation Expense	75,359	3,283	-	3,283	78,642
(Gain)/Loss on Disposal of Fixed Assets	832	-	-	-	832
TOTAL FUNCTIONAL EXPENSES	<u>\$ 3,335,720</u>	<u>\$ 226,151</u>	<u>\$ 52,854</u>	<u>\$ 279,005</u>	<u>\$ 3,614,725</u>

The accompanying notes are an integral part of the financial statements

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements
JUNE 30, 2010

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, 2010

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, 2010 tuition and grants receivable from the following agencies were as follows:

Head Start / Early Head Start	\$ 55,424
TN LEAP	13,526
TDHS	113,282
Other	<u>49,163</u>
Total	<u>\$ 231,395</u>

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2010

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2009, through June 30, 2010:

	Balance @ 7/1/09	Additions	Deletions	Balance @ 6/30/10
Land	\$ 65,589	\$ -	\$ -	\$ 65,589
Building	1,392,650	2,800	-	1,395,450
Equipment	498,540	9,972	1,070	507,442
Total	<u>\$ 1,956,779</u>	<u>\$ 12,772</u>	<u>\$ 1,070</u>	<u>\$ 1,968,481</u>

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 \$78,642 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, 2010 are as follows:

		30-Jun-10	
			Unrealized Appreciation (Depreciation)
Regions Morgan Keegan "Endowment" Account		Cost	Market Value
Artisan Funds Inc. - Small Cap Value	7,045	7,082	37
Artisan Funds Inc. - Mid Cap Value	7,362	7,289	(73)
Blackrock US Opportunities	7,178	7,287	109
Buffalo Small Cap Fund	6,809	6,938	129
Dodge & Cox	26,717	25,178	(1,539)
American Europacific Growth	12,063	11,524	(539)
American Growth Fund of America	22,675	22,044	(631)
Pioneer Cullen Value Fund Class Y	27,185	26,187	(998)
Principal L/C Growth Funds	23,456	22,685	(771)
Thornburg Intl Value Fund	11,962	11,636	(326)
Dodge & Cox Income Fund	57,327	57,584	257
Pimco Total Return Instl	56,712	58,205	1,493
Templeton Global Bond Fund	12,458	12,693	235
Total	278,949	276,332	(2,617)
Regions Morgan Keegan "Rainy Day" Account			
Pioneer Short Term Income	47,440	45,591	(1,849)
Total	47,440	45,591	(1,849)
Community Foundation Account			
Community Foundation Account	105,180	104,401	(779)
Grand Total	\$ 431,569	\$ 426,324	\$ (5,245)

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2010

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, 2010:

	Unrestricted	Permanently Restricted	Total
Interest & Dividend Income	\$ -	\$ 7,482	\$ 7,482
Net Realized & Unrealized Gains (Losses)	7,585	47,018	54,603
Investment Fees	(1,169)	(4,785)	(5,954)
Total	\$ 6,416	\$ 49,715	\$ 56,131

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, \$57,472 of vacation leave was due to employees at June 30, 2010. 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, 2010 was \$22,674. Amount of claims paid for the first quarter after year ended June 30, 2009 for employees terminated prior to June 30, 2010 were \$3,026.

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, 2010 was \$86,536.

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, 2010

10. RESTRICTIONS ON NET ASSETS

Substantially all of the temporary restrictions on net assets at June 30, 2010 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. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 11, 2010, the date which the financial statements were available to be issued.

- END OF NOTES -

**McNEILLY CENTER FOR CHILDREN, INC.
AUDITOR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

PRIOR YEAR'S AUDIT FINDINGS

- Finding #2009-01** Tests of cash receipt books from all sites revealed a significant amount of cash receipts that had either not been initialed by staff collecting the money, or had been altered, or both. All locations had at least one discrepancy. However the vast majority of the discrepancies were at the Caldwell location.
- Recommendation:** Instruct staff concerning the proper procedures of filling out cash receipts, and the importance that it be done properly.
- Management's Reply:** Management concurs with the finding and the recommendation, and will notify staff of the proper procedure to complete cash receipts. Management also notes that the individual responsible for most of the errors at the Caldwell location is no longer with the organization.
- Current Year's Follow-up:** The current year's tests of cash receipts found them to be vastly improved over last year.

CURRENT YEAR'S AUDIT FINDINGS

There were no current year audit findings.