

McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2007

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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, 2007, 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, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

August 31, 2007

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
JUNE 30, 2007
(See Auditors' Report)

ASSETS	OPERATIONS		ENDOWMENT	TOTAL
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Current Assets:				
Cash & Temporary Cash Investments (Notes 1 & 5)	\$ 152,644	\$ 91,099	\$ 64,120	\$ 307,863
Tuition Receivable - Program Receivables	186,982	-	-	186,982
Accounts Receivable	-	-	-	-
Allowance for Bad Debts	(3)	-	-	(3)
Prepaid Expenses	30,619	-	-	30,619
Total Current Assets	370,242	91,099	64,120	525,461
Long Term Investments (Note 5)	-	-	538,211	538,211
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,339,966	-	-	1,339,966
Equipment	474,667	-	-	474,667
	1,880,222	-	-	1,880,222
Less accumulated depreciation	(881,426)	-	-	(881,426)
Net Fixed Assets	998,796	-	-	998,796
TOTAL ASSETS	1,369,038	91,099	652,331	2,112,468
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	35,714	-	-	35,714
Accrued Salaries and Benefits	171,135	-	-	171,135
Unearned Grant Revenue	-	80,457	-	80,457
Prepaid Tuition	2,720	-	-	2,720
Total Current Liabilities	209,569	80,457	-	290,026
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
TOTAL LIABILITIES	209,569	80,457	-	290,026
Net Assets:				
Net Assets - undesignated	1,159,469	10,642	652,331	1,822,442
TOTAL LIABILITIES AND NET ASSETS	\$ 1,369,038	\$ 91,099	\$ 652,331	\$ 2,112,468

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Activity
For the Year Ended June 30, 2007
(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	\$ 296,187	\$ -	\$ -	\$ 296,187
DHS Revenues	1,565,332	-	-	1,565,332
United Way	356,176	-	-	356,176
Grant Fees	753,319	-	-	753,319
Special Events and Other Fund Raising	24,592	-	-	24,592
Grant Revenue	183,616	54,788	-	238,404
Gifts	48,962	-	-	48,962
HeadStart	251,673	-	-	251,673
Metro Social Services	28,088	-	-	28,088
Other Source	9,165	-	-	9,165
Investment Income - Endowment (Net of Trust Fees \$ 3,345)	3,527	-	76,080	79,607
Interest Income	3,937	-	-	3,937
Total Support and Revenue	<u>3,524,574</u>	<u>54,788</u>	<u>76,080</u>	<u>3,655,442</u>
Net Assets Released From Restrictions				
Satisfaction of donor restrictions	111,976	(111,976)	-	-
Total Earned Revenue and Support	<u>3,636,550</u>	<u>(57,188)</u>	<u>76,080</u>	<u>3,655,442</u>
<u>EXPENSES</u>				
Program Services:				
Day Care	3,383,636	-	-	3,383,636
Supporting Services:				
Management and General	228,677	-	-	228,677
Fund Raising	52,700	-	-	52,700
Total Expenses	<u>3,665,013</u>	<u>-</u>	<u>-</u>	<u>3,665,013</u>
Changes in Net Assets	(28,463)	(57,188)	76,080	(9,571)
Net Assets -				
Beginning of year	1,187,932	67,830	576,251	1,832,013
End of Year	<u>\$ 1,159,469</u>	<u>\$ 10,642</u>	<u>\$ 652,331</u>	<u>\$ 1,822,442</u>

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, 2007
(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	\$ (28,463)	\$ (57,188)	76,080	\$ (9,571)
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	85,243	-	-	85,243
Unrealized (Gain)/Loss on Investments	-	-	(27,188)	(27,188)
Loss on the Disposal of assets	861	-	-	861
(Increase) Decrease in accounts and tuition receivable	16,796	-	-	16,796
(Increase) Decrease prepaid expenses	(2,637)	-	-	(2,637)
Increase (Decrease) in prepaid tuition	(4,956)	-	-	(4,956)
Increase (Decrease) in accounts payable	997	(8,234)	-	(7,237)
Increase (Decrease) in Salaries and Wages payable	18,363	-	-	18,363
Increase (Decrease) in unearned revenue	-	(24,543)	-	(24,543)
Net cash provided (used) by operating activities	<u>86,204</u>	<u>(89,965)</u>	<u>48,892</u>	<u>45,131</u>
Cash Flow from Investing Activities:				
Purchase of Investments	-	-	-	-
Proceeds from Sales of Investments	-	-	-	-
Purchase of property and equipment	(78,316)	-	-	(78,316)
Net cash provided (used) by investing activities	<u>(78,316)</u>	<u>-</u>	<u>-</u>	<u>(78,316)</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	7,388	(89,965)	48,892	(33,685)
Cash and cash equivalents at beginning of year	<u>145,256</u>	<u>181,064</u>	<u>15,228</u>	<u>341,548</u>
Cash and cash equivalents at end of year	<u>\$ 152,644</u>	<u>\$ 91,099</u>	<u>\$ 64,120</u>	<u>\$ 307,863</u>

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, 2007
(See Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			Total Expenses
	Child Day Care	Management & General	Fund Raising	Total	
Salaries	\$ 2,106,434	\$ 179,144	\$ 41,734	\$ 220,878	\$ 2,327,312
Fringe Benefits	430,577	12,542	5,500	18,042	448,619
Total Personnel Expenses	<u>2,537,011</u>	<u>191,686</u>	<u>47,234</u>	<u>238,920</u>	<u>2,775,931</u>
Travel	8,745	1,039	147	1,186	9,931
Communication	13,030	2,111	556	2,667	15,697
Occupancy	204,109	4,020	4,071	8,091	212,200
Professional Services	3,337	16,998	-	16,998	20,335
Supplies	104,997	1,560	285	1,845	106,842
Maintenance	63,600	3,271	-	3,271	66,871
Food Costs	317,251	-	-	-	317,251
Printing & Publications	5,040	16	56	72	5,112
Bad Debt Expense	810	-	-	-	810
Training & Seminars	11,330	750	293	1,043	12,373
Enrichment / Field Trips	23,592	-	-	-	23,592
Dues	1,000	1,010	-	1,010	2,010
Minor Equipment Purchases	-	-	-	-	-
Interest Expense	-	-	-	-	-
Miscellaneous	10,252	505	58	563	10,815
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	<u>\$ 3,304,104</u>	<u>\$ 222,966</u>	<u>\$ 52,700</u>	<u>\$ 275,666</u>	<u>\$ 3,579,770</u>
Depreciation Expense	79,532	5,711	-	5,711	85,243
Loss on Disposal of Fixed Assets	-	-	-	-	-
TOTAL FUNCTIONAL EXPENSES	<u>\$ 3,383,636</u>	<u>\$ 228,677</u>	<u>\$ 52,700</u>	<u>\$ 281,377</u>	<u>\$ 3,665,013</u>

MCNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements
JUNE 30, 2007

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Organization does not use fund accounting.

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

Contributions

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

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions for which the donor's restrictions are met in the same period in which the gift is received are reported as unrestricted support.

Investments

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

Cash and Cash Equivalents

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

Accounts Receivable

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

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2007

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, 2007 tuition receivables from the following agencies were as follows:

Head Start	\$ 20,493
Metro Soc. Services	457
TDHS	130,440
CACFP	26,089
Other	<u>9,503</u>
Total	<u>\$ 186,982</u>

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2007

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2006, through June 30, 2007:

	Balance @ 7/1/06	Additions	Deletions	Balance @ 6/30/07
Land	\$ 65,589	\$ -	\$ -	\$ 65,589
Building	1,340,937	-	971	1,339,966
Equipment	434,240	78,816	38,389	474,667
Total	<u>\$ 1,840,766</u>	<u>\$ 78,816</u>	<u>\$ 38,360</u>	<u>\$ 1,880,222</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 \$85,243 using the straight-line method.

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

5. LONG-TERM INVESTMENTS

Investment assets consist primarily of securities traded on the national stock exchanges and a money market cash fund held by AmSouth Bank. Securities are stated at market value. The historical costs and market values at June 30, 2007 are as follows:

		June 30, 2007		June 30, 2006
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)
Cash in Money Market	\$ 64,120	\$ 64,120	\$ -	\$ -
Pioneer Gov't Income	65,000	60,277	(4,723)	(4,985)
Royce Fund	30,000	40,493	10,493	7,168
Value Mutual Fund	59,588	71,974	12,386	11,795
Pioneer Bond Fund Class Y	55,000	52,303	(2,697)	(2,993)
Mutual Mid Cap Fund	30,000	46,996	16,996	12,843
Oak Ridge Large Cap. Growth	104,068	100,877	(3,191)	(14,399)
International Equity	25,000	34,475	9,475	13,025
Enhanced Market	70,000	93,903	23,903	13,534
Pioneer Short Term	90,000	86,913	(3,087)	(3,621)
Total	<u>\$ 592,776</u>	<u>\$ 652,331</u>	<u>\$ 59,555</u>	<u>\$ 32,367</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2007:

	Unrestricted	Permanently Restricted	Total
Interest Income	\$ 3,937	\$ -	\$ 3,937
Investment Income	3,527	48,892	\$ 52,419
Net Realized & Unrealized Gains (Losses)	-	27,188	\$ 27,188
Total	<u>\$ 7,464</u>	<u>\$ 76,080</u>	<u>\$ 83,544</u>

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2007

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, \$57,374 of vacation leave was due to employees at June 30, 2007. 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, 2007 was \$3,100. Amount of claims paid for the first quarter after year ended June 30, 2007 for employees terminated prior to June 30, 2007 were \$502.

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, 2007 was \$74,202.

9. CONCENTRATION OF CREDIT RISK

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

10. RESTRICTIONS ON NET ASSETS

Substantially all of the temporary restrictions on net assets at June 30, 2007 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. FDIC LIMIT EXCEEDED

At year end, the Organization's bank balances exceeded FDIC limits by \$186,674. However, management believes this does not pose a significant risk.

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2007

12. UNUSED LETTER OF CREDIT

The Organization has an open letter of credit with AmSouth Bank. The balance at June 30, 2007 was \$0. The credit limit is \$100,000, and the interest rate is 8.5%.

- END OF NOTES -

**McNEILLY CENTER FOR CHILDREN, INC.
AUDITOR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

PRIOR YEAR'S AUDIT FINDINGS

There were no prior year's audit findings.

CURRENT YEAR'S AUDIT FINDINGS

There are no current year audit findings.

- END OF FINDINGS -