McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005

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Cowart,
Sargent
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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, 2005, 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, 2004, 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

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

November 9, 2005

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
JUNE 30, 2005
(See Auditors' Report)

	OPERATIONS		ENDOWMENT	
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Current Assets:				
Cash & Temporary Cash Investments (Notes 1)	$ 157,453	$ 48,925	$ 7,529	$ 213,907
Tuition Receivable - Program Receivables	195,416	-	-	195,416
Accounts Receivable	-	-	-	-
Allowance for Bad Debts	(1,839)	-	-	(1,839)
Prepaid Expenses	22,546	-	-	22,546
Total Current Assets	373,576	48,925	7,529	430,030
Long Term Investments (Note 5)	-	-	558,747	558,747
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,328,090	-	-	1,328,090
Equipment	434,188	-	-	434,188
	1,827,867	-	-	1,827,867
Less accumulated depreciation	(758,084)	-	-	(758,084)
Net Fixed Assets	1,069,783	-	-	1,069,783
TOTAL ASSETS	1,443,359	48,925	566,276	2,058,560
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	50,118	-	-	50,118
Accrued Salaries and Benefits	136,165	-	-	136,165
Total Current Liabilities	186,283	-	-	186,283
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
Net Assets				
Net Assets - undesignated	1,248,842	48,925	566,276	1,864,043
Board Designated	8,234	-	-	8,234
Total Net Assets	1,257,076	48,925	566,276	1,872,277
TOTAL LIABILITIES AND NET ASSETS	$ 1,443,359	$ 48,925	$ 566,276	$ 2,058,560

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, 2005
(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	$ 236,014	$ -	$ -	$ 236,014
DHS Revenues	1,573,421	-	-	1,573,421
United Way	331,178	-	-	331,178
Client Fee	721,700	-	-	721,700
Special Events and Other Fund Raising	18,114	-	-	18,114
Grant Revenue	64,899	99,347	-	164,246
Gifts	26,367	-	9,084	35,451
Other Source	7,748	-	-	7,748
Investment Income - Endowment (Net of Trust Fees $ 3,797)	13,852	-	18,325	32,177
Interest Income	523	-	-	523
Total Support and Revenue	2,993,816	99,347	27,409	3,120,572
Net Assets Released From Restrictions	-	-	-	-
Satisfaction of donor restrictions	68,952	(68,952)	-	-
Total Earned Revenue and Support	3,062,768	30,395	27,409	3,120,572
EXPENSES				
Program Services:				
Day Care	2,800,862	-	-	2,800,862
Supporting Services:				
Management and General	203,048	-	-	203,048
Fund Raising	48,070	-	-	48,070
Total Expenses	3,051,980	-	-	3,051,980
Changes in Net Assets	10,788	30,395	27,409	68,592
Net Assets -				
Beginning of year	1,246,288	18,530	538,867	1,803,685
End of Year	$ 1,257,076	$ 48,925	$ 566,276	$ 1,872,277

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, 2005
(See Auditors' Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Cash Flow from Operating Activities:				
Changes in net assets	$ 10,788	$ 30,395	27,409	$ 68,592
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	80,812	-	-	80,812
Gain on Sale of Investments			(18,325)	(18,325)
Loss on the Disposal of assets	-	-	-	-
(Increase) Decrease in accounts and tuition receivable	(52,690)	-	-	(52,690)
(Increase) Decrease prepaid expenses	464	-	-	464
Increase (Decrease) in accounts payable	20,802	-	-	20,802
Increase (Decrease) in unearned tuition	-	-	-	-
Net cash provided (used) by operating activities	60,176	30,395	9,084	99,655
Cash Flow from Investing Activities:				
Purchase of Investments	(257,201)	-	(2,799)	(260,000)
Proceeds from Sales of Investments	257,203	-	-	257,203
Purchase of equipment	(42,561)	-	-	(42,561)
Net cash provided (used) by investing activities	(42,559)	-	(2,799)	(45,358)
Cash Flows from Financing Activities:				
Increase (Decrease) in Long-Term Debt	-	-	-	-
Net cash provided (used) by financing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	17,617	30,395	6,285	54,297
Cash and cash equivalents at beginning of year	139,836	18,530	1,244	159,610
Cash and cash equivalents at end of year	$ 157,453	$ 48,925	7,529	$ 213,907

Supplemental Data:
Interest 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, 2005
(See Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	$ 1,731,341	$ 148,333	$ 38,424	$ 186,757	$ 1,918,098
Fringe Benefits	345,722	23,181	7,376	30,557	376,279
Total Personnel Expenses	2,077,063	171,514	45,800	217,314	2,294,377
Travel	11,936	1,059	143	1,202	13,138
Communication	12,773	2,411	932	3,343	16,116
Occupancy	175,053	1,974	466	2,440	177,493
Professional Services	8,729	11,733	322	12,055	20,784
Supplies	91,429	1,094	197	1,291	92,720
Maintenance	31,511	194	-	194	31,705
Food Costs	274,706	-	-	-	274,706
Printing & Publications	4,849	17	-	17	4,866
Bad Debt Expense	2,551	4,207	-	4,207	6,758
Training & Seminars	2,530	2,666	160	2,826	5,356
Enrichment / Field Trips	22,795	-	-	-	22,795
Minor Equipment Purchases	-	-	-	-	-
Interest Expense	-	-	-	-	-
Miscellaneous	9,840	464	50	514	10,354
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	$ 2,725,765	$ 197,333	$ 48,070	$ 245,403	$ 2,971,168
Depreciation Expense	75,097	5,715	-	5,715	80,812
Loss on Disposal of Fixed Assets	-	-	-	-	-
TOTAL FUNCTIONAL EXPENSES	$ 2,800,862	$ 203,048	$ 48,070	$ 251,118	$ 3,051,980

The accompanying notes are an integral part of the financial statements

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements
JUNE 30, 2005

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.

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 patients 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.

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, 2005 tuition receivables from the following agencies were as follows:

Head Start	$ 12,251
Metro Soc. Services	24,069
TDHS	133,405
CACFP	21,820
Total	$ 191,545

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2004, through June 30, 2005:

	Balance @ 7/1/04	Additions	Deletions	Balance @ 6/30/05
Land	$ 65,589	$ -	$ -	$ 65,589
Building	1,297,414	30,676	-	1,328,090
Equipment	440,603	13,383	19,798	434,188
Total	$ 1,803,606	$ 44,059	$ 19,798	$ 1,827,867

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 $85,166 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, 2005 are as follows:

		June 30, 2005		June 30, 2004
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)
Cash in Money Market	$ 7,529	$ 7,529	$ -	$ -
AmSouth Gov't Income	65,000	63,819	(1,181)	3,924
Royce Fund	30,000	32,180	2,180	2,500
Value Mutual Fund	60,000	73,083	13,083	4,425
AmSouth High Quality	55,000	55,446	446	8,265
Mutual Mid Cap Fund	30,000	42,267	12,267	6,328
AmSouth Capital Growth	104,068	90,879	(13,189)	(14,199)
International Equity	25,000	34,025	9,025	4,950
Enhanced Market	70,000	79,231	9,231	6,502
Limited Term	90,000	87,817	(2,183)	(423)
Total	$ 536,597	$ 566,276	$ 29,679	$ 22,272

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2005:

	Unrestricted	Permanently Restricted	Total
Interest Income	$ 523	$ -	$ 523
Investment Income	13,852	-	$ 13,852
Net Realized & Unrealized Gains (Losses)	-	18,235	$ 18,235
Total	$ 14,375	$ 18,235	$ 32,610

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, $44,541 of vacation leave was due to employees at June 30, 2005. 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. There was no unemployment compensation paid for the year ended June 30, 2005.

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 non-matched 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 was as follows:

	For the Year Ended June 30, 2005
Thrift Plan	$ 69,374
Total Pension Contributions	$ 69,374.

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, 2005 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. BOARD DESIGNATED NET ASSETS

The Board of Directors has chosen to segregate funds contributed in honor of an employee who tragically lost her life. These funds are designated to be used for her surviving children, though the exact use of these funds has not been decided.

12. FDIC LIMIT EXCEEDED

At year end, the Organization's bank balances exceeded FDIC limits by $184,001. However, management believes this does not pose a significant risk.

-END OF NOTES-

McNEILLY CENTER FOR CHILDREN, INC.
AUDITOR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

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 -