McNEILLY CENTER FOR CHILDREN, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2011

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COWART REESE SARGENT
Certified Public Accountants, P.C.

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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, 2011, 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, 2011, 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 October 11, 2011 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.

October 11, 2011

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Financial Position
June 30, 2011
(See Auditors' Report)

	OPERATIONS		ENDOWMENT	
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Current Assets:				
Cash & Temporary Cash Investments (Notes 1 & 5)	$ 29,964	$ 26,100	$ 16,167	$ 72,231
Tuition Receivable - Program Receivables	-	-	-	-
Accounts Receivable	161,102	-	-	161,102
Prepaid Expenses	29,885	-	-	29,885
Total Current Assets	220,951	26,100	16,167	263,218
Long Term Investments (Note 5)	-	-	359,347	359,347
Property and equipment - At cost (Note 1 & 4)				
Land	65,589	-	-	65,589
Building	1,402,866	-	-	1,402,866
Equipment	529,605	-	-	529,605
	1,998,060	-	-	1,998,060
Less accumulated depreciation	(1,187,440)	-	-	(1,187,440)
Net Fixed Assets	810,620	-	-	810,620
TOTAL ASSETS	1,031,571	26,100	375,514	1,433,185
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	31,252	-	-	31,252
Accrued Salaries and Benefits	102,486	-	-	102,486
Unearned Grant Revenue	-	6,478	-	6,478
Prepaid Tuition	5,074	-	-	5,074
Total Current Liabilities	138,812	6,478	-	145,290
Long Term Liabilities:				
Total Long Term Liabilities	-	-	-	-
TOTAL LIABILITIES	138,812	6,478	-	145,290
	-		-	
Net Assets				
Net Assets - undesignated	832,458	19,622	375,514	1,227,594
Net Assets - designated	60,301	-	-	60,301
TOTAL NET ASSETS	892,759	19,622	375,514	1,287,895
TOTAL LIABILITIES AND NET ASSETS	$ 1,031,571	$ 26,100	$ 375,514	$ 1,433,185

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Activity
For the Year Ended June 30, 2010
(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	$ 297,515	$ -	$ -	$ 297,515
DHS Revenues	992,103	-	-	992,103
United Way	381,993	-	-	381,993
Client Fee	612,489	-	-	612,489
Special Events and Other Fund Raising	49,484	-	-	49,484
Grant Revenue	76,566	184,570	-	261,136
Gifts	119,974	-	-	119,974
HeadStart	267,460	-	-	267,460
Early HeadStart	449,730	-	-	449,730
Metro Social Services	12,769	-	-	12,769
Investment Income/(Loss) - Endowment (Net of Trust Fees $6,093)	88,119	-	(17,947)	70,172
Interest Income	1,363	-	-	1,363
Total Support and Revenue	3,349,565	184,570	(17,947)	3,516,188
Net Assets Released From Restrictions				
Satisfaction of donor restrictions	183,055	(183,055)	-	-
Total Earned Revenue and Support	3,532,620	1,515	(17,947)	3,516,188
EXPENSES				
Program Services:				
Day Care	3,378,725	-	-	3,378,725
Supporting Services:				
Management and General	232,231	-	-	232,231
Fund Raising	74,303	-	-	74,303
Total Expenses	3,685,259	-	-	3,685,259
Changes in Net Assets	(152,639)	1,515	(17,947)	(169,071)
Net Assets -				
Beginning of year	1,045,398	18,107	393,461	1,456,966
End of Year	$ 892,759	$ 19,622	$ 375,514	$ 1,287,895

McNEILLY CENTER FOR CHILDREN, INC
(A not-for-profit organization)
Statement of Cash Flow
For the Year Ended June 30, 2010
(See Auditors' Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Cash Flow from Operating Activities:				
Changes in net assets	$ (152,639)	$ 1,515	$ (17,947)	$ (169,071)
Adjustments to reconcile change in net assets to net cash used by				
Operating activities:				
Depreciation	75,210	-	-	75,210
(Gain)/Loss on Investments	(88,119)	-	17,947	(70,172)
Loss on the Disposal of assets	740	-	-	740
In-Kind Income	-	-	-	-
(Increase) Decrease in accounts and tuition receivable	71,788	-	-	71,788
(Increase) Decrease prepaid expenses	2,843	-	-	2,843
Increase (Decrease) in prepaid tuition	2,478	-	-	2,478
Increase (Decrease) in accounts payable	(1,823)	-	-	(1,823)
Increase (Decrease) in Salaries and Wages payable	(51,103)	-	-	(51,103)
Increase (Decrease) in unearned revenue	-	(1,515)	-	(1,515)
Net cash provided (used) by operating activities	(140,625)	-	-	(140,625)
Cash Flow from Investing Activities:				
Purchase of Investments	(555)	-	-	(555)
Proceeds from Sales of Investments	131,785	-	3,439	135,224
Purchase of property and equipment	(39,182)	-	-	(39,182)
Net cash provided (used) by investing activities	92,048	-	3,439	95,487
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	(48,577)	-	3,439	(45,138)
Cash and cash equivalents at beginning of year	78,541	26,100	12,728	117,369
Cash and cash equivalents at end of year	$ 29,964	$ 26,100	$ 16,167	$ 72,231

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, 2011
(See Auditors' Report)

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	$ 2,000,390	$ 174,760	$ 55,119	$ 229,879	$ 2,230,269
Fringe Benefits	441,561	26,760	6,496	33,256	474,817
Total Personnel Expenses	2,441,951	201,520	61,615	263,135	2,705,086
Travel	5,628	930	-	930	6,558
Communication	8,371	1,841	269	2,110	10,481
Occupancy	237,697	2,250	1,064	3,314	241,011
Professional Services	3,030	16,701	815	17,516	20,546
Sports Faciliator & Tutoring	40,740	-	-	-	40,740
Supplies	129,210	1,660	481	2,141	131,351
Repairs & Maintenance	52,382	-	-	-	52,382
Food Costs	275,678	-	-	-	275,678
Printing & Publications	2,010	448	2,247	2,695	4,705
Postage	18	826	44	870	888
Bad Debt Expense	7,446	-	-	-	7,446
Training & Meetings	6,062	322	-	322	6,384
Enrichment / Field Trips	23,551	-	-	-	23,551
Dues & Licenses	3,596	450	-	450	4,046
Minor Equipment Purchases	210	-	-	-	210
Interest Expense	-	-	-	-	-
Miscellaneous	68,425	2,053	7,768	9,821	78,246
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	$ 3,306,005	$ 229,001	$ 74,303	$ 303,304	$ 3,609,309
Depreciation Expense	71,980	3,230	-	3,230	75,210
(Gain)/Loss on Disposal of Fixed Assets	740	-	-	-	740
TOTAL FUNCTIONAL EXPENSES	$ 3,378,725	$ 232,231	$ 74,303	$ 306,534	$ 3,685,259

The accompanying notes are an integral part of the financial statements

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements
JUNE 30, 2011

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, 2011

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, 2011 tuition and grants receivable from the following agencies were as follows:

Head Start / Early Head Start	$ 56,901
TN LEAP	8,801
TDHS	65,690
Other	29,710
Total	$ 161,102

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2011

4. FIXED ASSETS

The following changes in fixed assets occurred during the period July 1, 2010, through June 30, 2011:

	Balance @ 7/1/10	Additions	Deletions	Balance @ 6/30/11
Land	$ 65,589	$ -	$ -	$ 65,589
Building	1,395,450	13,806	7,890	1,401,366
Equipment	507,442	25,376	1,713	531,105
Total	$ 1,968,481	$ 39,182	$ 9,603	$ 1,998,060

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 $75,210 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, 2011 are as follows:

			30-Jun-11	
Regions Morgan Keegan "Endowment" Account		Cost	Market Value	Unrealized Appreciation (Depreciation)
Artisan Funds Inc. - Small Cap Value		4,404	5,828	1,424
Artisan Funds Inc. - Mid Cap Value		4,452	5,750	1,298
Buffalo Small Cap Fund		4,522	5,703	1,181
Dodge & Cox		13,246	16,134	2,888
American Europacific Growth		11,691	13,659	1,968
Highmark Geneva Mid Cap		5,652	5,848	196
Mainstay Funds Large Cap		14,462	16,470	2,008
Pioneer Cullen Value Fund Class Y		13,629	16,312	2,683
Principal L/C Growth Funds		13,022	16,585	3,563
Thornburg Intl Value Fund		11,277	13,490	2,213
Dodge & Cox Income Fund		44,841	45,333	492
Federated Total Return		46,662	46,343	(319)
Vanguard Short Term Bond Fund		11,726	11,687	(39)
Templeton Global Bond Fund		12,279	13,240	961
	Total	211,865	232,382	20,517
Regions Morgan Keegan "Rainy Day" Account				
Pioneer Short Term Income		-	-	-
	Total	-	-	-
Community Foundation Account				
Community Foundation Account		112,069	126,965	14,896
	Grand Total	$ 323,934	$ 359,347	$ 35,413

McNEILLY CENTER FOR CHILDREN, INC.
Notes to the Financial Statements (Continued)
JUNE 30, 2011

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, 2011:

	Unrestricted	Permanently Restricted	Total
Interest & Dividend Income	$ 2,341	$ 9,503	$ 11,844
Net Realized & Unrealized Gains (Losses)	86,506	(22,085)	64,421
Investment Fees	(728)	(5,365)	(6,093)
Total	$ 88,119	$ (17,947)	$ 70,172

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, $52,577 of vacation leave was due to employees at June 30, 2011. 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, 2011 was $16,192.

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, 2011 was $90,426.

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, 2011

10. RESTRICTIONS ON NET ASSETS

Substantially all of the temporary restrictions on net assets at June 30, 2011 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 September 30, 2011, the date which the financial statements were available to be issued.

- END OF NOTES -

COWART REESE SARGENT
Certified Public Accountants, P.C.

Members: American Institute of Certified Public Accountants | Tennessee Society of Certified Public Accountants
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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*

October 11, 2011

Board of Directors
McNeilly Center for Children, Inc
Nashville, Tennessee

We have audited the financial statements of McNeilly Center for Children, Inc, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. 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

In planning and performing our audit, we considered McNeilly Center for Children, Inc 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 Center for Children, Inc'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*.

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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

McNEILLY CENTER FOR CHILDREN, INC.
AUDITOR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

PRIOR YEAR'S AUDIT FINDINGS

None

CURRENT YEAR'S AUDIT FINDINGS

There were no current year audit findings.