

MARTHA O'BRYAN CENTER, INC.

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors of
Martha O'Bryan Center, Inc.:

We have audited the accompanying statements of financial position of Martha O'Bryan Center, Inc. (a nonprofit organization) as of June 30, 2005 and 2004 and the related statements of unrestricted revenues, expenses, and other changes in unrestricted assets, changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Martha O'Bryan Center, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide 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 Martha O'Bryan Center, Inc. as of June 30, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2005, on our consideration of Martha O'Bryan Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 audits.

Mullins Clemmons & Mayes, PLLC

Brentwood, Tennessee
August 4, 2005

MARTHA O'BRYAN CENTER, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 407,065	\$ 747,829
Certificates of deposit	393,000	-
Federal and state grants receivable	44,881	54,179
Other receivables	35,653	35,585
Unconditional promises to give, net	673,306	575,461
Prepaid expenses	33,095	40,621
Property and equipment, net	2,548,378	2,662,717
Other assets	8,000	8,000
TOTAL ASSETS	<u>\$ 4,143,378</u>	<u>\$ 4,124,392</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 24,487	\$ 29,149
Accrued liabilities	121,227	138,422
Total liabilities	<u>145,714</u>	<u>167,571</u>
NET ASSETS:		
Unrestricted	3,227,283	3,225,915
Temporarily restricted	770,381	730,906
Total net assets	<u>3,997,664</u>	<u>3,956,821</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,143,378</u>	<u>\$ 4,124,392</u>

The accompanying notes are an integral part of the financial statements.

MARTHA O'BRYAN CENTER, INC.**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES, AND OTHER
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
UNRESTRICTED REVENUES:		
Government grants	\$ 298,643	\$ 333,247
Donations and private grants	1,038,974	840,186
Program fees and subsidies	312,375	365,920
Fund raising events	140,270	83,027
Lease fees	7,200	8,200
Interest and miscellaneous	8,884	3,595
Total unrestricted revenues	<u>1,806,346</u>	<u>1,634,175</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Restrictions satisfied by incurrence of costs	95,435	36,870
Expiration of time restrictions	<u>526,469</u>	<u>589,185</u>
Total net assets released from restrictions	<u>621,904</u>	<u>626,055</u>
Total unrestricted revenues and other support	<u>2,428,250</u>	<u>2,260,230</u>
EXPENSES:		
Program services:		
Child development	741,507	679,716
Reading	77,510	59,814
Youth services	393,649	307,049
Family and community services	177,242	233,373
Family education	350,621	397,428
Family resource center	78,355	81,483
Supporting services:		
Management and general	213,601	198,744
Development and fund raising	<u>394,397</u>	<u>318,633</u>
Total unrestricted expenses	<u>2,426,882</u>	<u>2,276,240</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 1,368</u>	<u>\$ (16,010)</u>

The accompanying notes are an integral part of the financial statements.

MARTHA O'BRYAN CENTER, INC.

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
UNRESTRICTED NET ASSETS:		
Total unrestricted revenues	\$ 1,806,346	\$ 1,634,175
Net assets released from restrictions	621,904	626,055
Total unrestricted expenses	<u>(2,426,882)</u>	<u>(2,276,240)</u>
Net change in unrestricted net assets	<u>1,368</u>	<u>(16,010)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Donations and private grants	661,379	736,564
Fund raising events	-	250
Bad debts	-	(738)
Net assets released from restrictions	<u>(621,904)</u>	<u>(626,055)</u>
Net change in temporarily restricted net assets	<u>39,475</u>	<u>110,021</u>
INCREASE IN NET ASSETS	40,843	94,011
NET ASSETS, BEGINNING	<u>3,956,821</u>	<u>3,862,810</u>
NET ASSETS, ENDING	<u><u>\$ 3,997,664</u></u>	<u><u>\$ 3,956,821</u></u>

The accompanying notes are an integral part of the financial statements.

MARTHA O'BRYAN CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Services						Supporting Services		Total Expenses
	Child		Youth	Family and Community	Family	Family	Management and Development	and	
	Development	Reading	Services	Services	Education	Resource	General	Fund Raising	
Salaries	\$ 453,876	\$ 46,521	\$ 215,543	\$ 93,774	\$ 227,630	\$ 48,333	\$ 115,564	\$ 209,695	\$ 1,410,936
Employee benefits	65,232	5,703	25,580	8,824	31,945	6,634	11,830	21,351	177,099
Payroll taxes	34,111	3,592	16,584	7,342	17,800	3,576	15,341	15,936	114,282
Total personnel costs	553,219	55,816	257,707	109,940	277,375	58,543	142,735	246,982	1,702,317
Professional services	10,603	483	3,218	1,847	3,089	625	4,279	8,710	32,854
Insurance	6,235	634	7,423	2,016	2,519	1,007	2,948	509	23,291
Food and supplies	50,143	8,744	37,136	29,858	10,516	1,556	6,446	53,761	198,160
Client assistance	-	-	-	6,560	-	-	-	-	6,560
Communications	7,339	646	2,927	1,414	10,813	524	2,151	41,926	67,740
Utilities	18,234	1,855	14,440	5,015	8,415	2,877	6,608	1,756	59,200
Building and grounds maintenance	27,586	2,568	24,262	6,288	10,387	4,568	9,140	5,778	90,577
Equipment maintenance and repair	4,047	331	1,355	983	2,149	1,524	5,913	5,087	21,389
Vehicles and travel	1,240	121	6,474	1,780	2,008	4	2,241	811	14,679
Professional development	2,395	722	633	270	887	4	2,283	4,265	11,459
Subscriptions and memberships	857	476	38	89	90	34	4,017	457	6,058
Interest, fees, licenses and miscellaneous	657	7	139	467	118	-	5,358	2,529	9,275
Bad debts	-	-	-	-	-	-	-	12,613	12,613
Total expenses before depreciation	682,555	72,403	355,752	166,527	328,366	71,266	194,119	385,184	2,256,172
Depreciation	58,952	5,107	37,897	10,715	22,255	7,089	19,482	9,213	170,710
Total expenses	\$ 741,507	\$ 77,510	\$ 393,649	\$ 177,242	\$ 350,621	\$ 78,355	\$ 213,601	\$ 394,397	\$ 2,426,882

The accompanying notes are an integral part of the financial statements.

MARTHA O'BRYAN CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	Program Services						Supporting Services		Total Expenses
	Child		Youth	Family & Community	Family	Family	Management and	Development and	
	Development	Reading	Services	Services	Education	Resource	General	Fund Raising	
Salaries	\$ 401,889	\$ 40,586	\$ 161,350	\$ 113,908	\$ 277,103	\$ 48,985	\$ 106,093	\$ 192,779	\$ 1,342,693
Employee benefits	54,111	4,356	19,026	9,996	32,446	5,157	8,366	16,060	149,518
Payroll taxes	30,409	2,992	11,981	8,811	20,091	3,858	17,849	14,894	110,885
Total personnel costs	486,409	47,934	192,357	132,715	329,640	58,000	132,308	223,733	1,603,096
Professional services	12,564	602	3,485	2,606	2,704	1,048	4,192	5,303	32,504
Insurance	5,446	480	6,104	2,549	1,939	1,048	2,152	440	20,158
Food and supplies	55,135	1,620	24,174	44,029	8,546	2,136	4,034	28,972	168,646
Client assistance	-	-	236	3,265	8	-	-	-	3,509
Communications	6,352	492	2,280	1,494	10,596	880	3,683	29,684	55,461
Utilities	17,563	1,292	12,116	8,269	7,361	3,140	5,237	1,560	56,538
Building and grounds maintenance	30,942	2,163	23,253	14,308	9,800	5,742	8,738	3,894	98,840
Equipment maintenance and repair	5,171	443	1,256	2,225	3,585	1,301	3,813	6,415	24,209
Vehicles and travel	89	97	3,040	376	1,633	25	442	734	6,436
Professional development	5,636	5	3,086	220	587	10	3,949	1,635	15,128
Subscriptions and memberships	608	299	100	225	200	150	3,143	436	5,161
Interest, fees, licenses and miscellaneous	292	14	179	78	53	-	12,472	1,738	14,826
Bad debts	-	-	-	-	-	-	-	4,735	4,735
Total expenses before depreciation	626,207	55,441	271,666	212,359	376,652	73,480	184,163	309,279	2,109,247
Depreciation	53,509	4,373	35,383	21,014	20,776	8,003	14,581	9,354	166,993
Total expenses	\$ 679,716	\$ 59,814	\$ 307,049	\$ 233,373	\$ 397,428	\$ 81,483	\$ 198,744	\$ 318,633	\$ 2,276,240

The accompanying notes are an integral part of the financial statements.

MARTHA O'BRYAN CENTER, INC.**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets	\$ 40,843	\$ 94,011
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	170,710	166,993
Net changes in allowance for uncollectible promises	7,890	(1,000)
Net changes in other assets and liabilities:		
Grants receivable	9,298	2,331
Other receivables	(68)	(2,556)
Unrestricted unconditional promises to give	10,468	45,502
Temporarily restricted unconditional promises to give	(116,203)	77,601
Prepaid expenses	7,526	(27,275)
Accounts payable	(4,662)	(16,984)
Accrued liabilities	(17,195)	9,215
Net cash provided by operating activities	<u>108,607</u>	<u>347,838</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net investment in certificates of deposit	(393,000)	-
Purchase of property and equipment	<u>(56,371)</u>	<u>(64,559)</u>
Net cash used for investing activities	<u>(449,371)</u>	<u>(64,559)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(340,764)	283,279
CASH AND CASH EQUIVALENTS, BEGINNING	<u>747,829</u>	<u>464,550</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 407,065</u>	<u>\$ 747,829</u>

The accompanying notes are an integral part of the financial statements.

MARTHA O'BRYAN CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 – THE ENTITY

Martha O'Bryan Center, Inc., (the "Center"), founded in 1894, is qualified as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. The primary programs of the Center include child development, family services, youth services, community services, family education, and a family resource center. The Center operates primarily in its East Nashville community. See Note 3 for a description of the Center's reliance on certain funding.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2005 and 2004 in these financial statements refer to the years ended June 30, 2005 and 2004, respectively, unless otherwise noted.

Basis of Accounting

The financial records of the Center are maintained on the accrual basis of accounting.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Center uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

See Notes 5 and 6 for further details.

Grant Revenues

Grant revenues are recognized when qualified reimbursable expenses are incurred or when services are performed.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in various bank accounts, and all highly liquid investments with an original maturity of three months or less. The Center may, at times, maintain bank accounts whose balances exceed federally insured limits. However, the Center has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

MARTHA O'BRYAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Expenditures for additions, major renewals and betterment of property and equipment with a cost in excess of \$500 are capitalized. The fair value of donated property and equipment is similarly capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets.

Donated Materials and Services

Donated materials are recognized as contributions at their estimated fair values at date of receipt. The value of donated services meeting the requirements for recognition in the financial statements was not material and has not been recorded. A substantial number of volunteers have donated significant amounts of time in the Center's programs, development and fund raising activities.

Income Taxes

As mentioned in Note 1, the Center is a tax-exempt organization; accordingly, no provision for income taxes is included in the accompanying financial statements.

Functional Allocation of Expenses

Expenses, which are directly related to a function, are charged to that function. Expenses that are related to more than one function are allocated to the applicable functions based upon various allocation methods in order to reflect the total cost of each function.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Center 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. See Note 5 for further details.

NOTE 3 – SIGNIFICANT SUPPORT

The Center receives a substantial amount of its support from the Tennessee Department of Human Services and from the United Way of Nashville and Middle Tennessee. A major reduction of these funds, should this occur, may have a significant effect on future operations of the Center.

MARTHA O'BRYAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,150	\$ 1,150
Buildings and improvements	3,458,991	3,452,548
Equipment	388,939	395,775
Vehicles	68,864	67,079
Fixtures	<u>64,046</u>	<u>63,499</u>
Total cost	3,981,990	3,980,051
Less accumulated depreciation and amortization	<u>(1,433,912)</u>	<u>(1,317,334)</u>
Net book value	<u>\$2,548,378</u>	<u>\$2,662,717</u>

NOTE 5 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
For subsequent fiscal years	\$642,142	\$553,960
For specific purposes:		
Expansion of services to senior citizens	59,847	84,373
Data collector	30,911	82,021
Cayce Family Resource Council supplies	10,712	9,362
Adult education	10,251	-
Educational assistance	4,009	-
Reading specialist	3,600	-
Youth programs	2,559	-
Toy store	2,500	-
Literacy	2,050	-
High Scope training	1,200	-
Other	<u>600</u>	<u>1,190</u>
Total	<u>\$770,381</u>	<u>\$730,906</u>

There were no permanently restricted net assets at June 30, 2005 and 2004. Cash and cash equivalents include \$187,807 of temporarily restricted cash at June 30, 2005.

NOTE 6 – PROMISES TO GIVE

Unconditional promises to give consisted of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Unrestricted promises	\$103,122	\$113,590
Temporarily restricted	<u>582,574</u>	<u>466,371</u>
Total	685,696	579,961
Less allowance for uncollectible promises	<u>(12,390)</u>	<u>(4,500)</u>
Net	<u>\$673,306</u>	<u>\$575,461</u>

MARTHA O'BRYAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 7 – RECLASSIFICATIONS

Certain reclassifications were made to the 2004 amounts to be consistent with the 2005 presentation. These reclassifications did not have a significant effect on the previously reported financial position, changes in net assets, and cash flows of the Center.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Martha O'Bryan Center, Inc.:

We have audited the financial statements of Martha O'Bryan Center, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated August 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Martha O'Bryan Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martha O'Bryan Center, 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 solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Mullins Clemmons & Mayes, PLLC

Brentwood, Tennessee
August 4, 2005