

***MARTHA O'BRYAN
CENTER, INC.***

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE &
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2013 and 2012

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.:

Report on the Financial Statements

We have audited the accompanying financial statements of Martha O'Bryan Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by the State of Tennessee, Department of Audit, Audit Manual for Local Governmental Units and Other Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Martha O'Bryan Center, Inc.'s internal control over financial reporting and compliance.

Mullins Clemmons & Mayes, PLLC

Brentwood, Tennessee
March 25, 2014

MARTHA O'BRYAN CENTER, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,034,635	\$ 1,173,624
Government grants receivable	372,754	408,811
Other receivables	263,494	95,592
Unconditional promises to give, net	1,112,472	341,146
Prepaid expenses	48,754	1,234
Property and equipment, net	<u>2,157,324</u>	<u>1,923,079</u>
TOTAL ASSETS	<u>\$ 4,989,433</u>	<u>\$ 3,943,486</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 128,303	\$ 81,492
Accrued liabilities	422,927	250,440
Capital lease obligation	7,068	13,220
Total liabilities	<u>558,298</u>	<u>345,152</u>
NET ASSETS:		
Unrestricted	3,031,309	2,501,891
Temporarily restricted	<u>1,399,826</u>	<u>1,096,443</u>
Total net assets	<u>4,431,135</u>	<u>3,598,334</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,989,433</u>	<u>\$ 3,943,486</u>

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

MARTHA O'BRYAN CENTER, INC.**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013**

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:			
Government grants	\$ 1,860,064	\$ -	\$ 1,860,064
Donations and private grants	3,348,653	1,469,529	4,818,182
Program fees and subsidies	2,033,450	-	2,033,450
Fund raising events	73,442	-	73,442
In-kind donations	448,243	-	448,243
Interest and miscellaneous	30,989	-	30,989
Total	<u>7,794,841</u>	<u>1,469,529</u>	<u>9,264,370</u>
NET ASSETS RELEASED FROM RESTRICTIONS:			
Restrictions satisfied by incurrence of costs	878,719	(878,719)	-
Expiration of time restrictions	287,427	(287,427)	-
Total net assets released from restrictions	<u>1,166,146</u>	<u>(1,166,146)</u>	<u>-</u>
Total revenues, gains and other support	<u>8,960,987</u>	<u>303,383</u>	<u>9,264,370</u>
EXPENSES:			
Program services:			
East End Preparatory	1,674,351	-	1,674,351
Child development	1,278,111	-	1,278,111
Reading	826,940	-	826,940
Youth services	1,543,710	-	1,543,710
Family and community services	982,684	-	982,684
Family education	552,682	-	552,682
Family resource center	90,362	-	90,362
Supporting services:			
Management and general	698,666	-	698,666
Development and fund raising	784,062	-	784,062
Total expenses	<u>8,431,569</u>	<u>-</u>	<u>8,431,569</u>
NET CHANGE IN NET ASSETS	529,418	303,383	832,801
NET ASSETS:			
Beginning of year	<u>2,501,891</u>	<u>1,096,443</u>	<u>3,598,334</u>
End of year	<u>\$ 3,031,309</u>	<u>\$ 1,399,826</u>	<u>\$ 4,431,135</u>

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

MARTHA O'BRYAN CENTER, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:			
Government grants	\$ 1,325,876	\$ -	\$ 1,325,876
Donations and private grants	1,555,496	1,053,098	2,608,594
Program fees and subsidies	1,062,464	-	1,062,464
Fund raising events	58,157	-	58,157
In-kind donations	221,047	-	221,047
Interest and miscellaneous	8,600	-	8,600
Total	4,231,640	1,053,098	5,284,738
NET ASSETS RELEASED FROM RESTRICTIONS:			
Restrictions satisfied by incurrence of costs	1,717,352	(1,717,352)	-
Expiration of time restrictions	252,471	(252,471)	-
Total net assets released from restrictions	1,969,823	(1,969,823)	-
Total revenues, gains and other support	6,201,463	(916,725)	5,284,738
EXPENSES:			
Program services:			
East End Preparatory	885,800	-	885,800
Child development	1,151,517	-	1,151,517
Reading	732,349	-	732,349
Youth services	1,352,982	-	1,352,982
Family and community services	516,678	-	516,678
Family education	447,160	-	447,160
Family resource center	77,548	-	77,548
Supporting services:			
Management and general	370,018	-	370,018
Development and fund raising	594,042	-	594,042
Total expenses	6,128,094	-	6,128,094
NET CHANGE IN NET ASSETS	73,369	(916,725)	(843,356)
NET ASSETS:			
Beginning of year	2,428,522	2,013,168	4,441,690
End of year	<u>\$ 2,501,891</u>	<u>\$ 1,096,443</u>	<u>\$ 3,598,334</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, 2013

	Program Services						Supporting Services		Total Expenses	
	East End Preparatory	Child Development	Reading	Youth Services	Community Services	Family Education	Family Resource	Management and General		Development and Fund Raising
Salaries	\$ 923,382	\$ 879,928	\$ 508,645	\$ 1,062,716	\$ 492,172	\$ 356,763	\$ 62,966	\$ 103,785	\$ 467,605	\$ 4,857,962
Employee benefits	202,768	88,156	30,858	105,126	32,185	41,855	9,251	19,974	49,783	579,957
Payroll taxes	68,694	51,559	38,306	77,208	38,095	25,871	4,638	46,107	32,926	383,404
Total personnel costs	1,194,844	1,019,643	577,809	1,245,050	562,452	424,489	76,855	169,866	550,314	5,821,323
Professional services	41,406	17,063	16,383	22,330	41,802	7,312	2,084	241,525	7,245	397,150
Insurance	11,889	9,708	806	10,065	5,921	1,567	1,231	3,897	1,882	46,966
Food and supplies	120,916	134,478	34,728	119,006	43,754	61,878	1,249	148,527	16,303	680,839
Client assistance	-	-	-	4,772	1,150	21,971	-	846	-	28,739
Communications	21,679	2,733	322	10,841	1,946	1,977	569	8,075	98,436	146,578
Utilities	-	18,950	1,573	20,920	11,558	3,059	2,403	7,606	3,673	69,742
Building and grounds maintenance	118,995	23,866	2,984	25,085	15,609	3,867	3,025	13,806	4,666	211,903
Equipment maintenance and repair	14,158	4,403	851	2,936	11,758	5,182	324	4,801	10,035	54,448
Vehicles and travel	109,517	10,745	11,896	19,697	7,469	4,235	485	7,448	2,035	173,527
Professional development	21,244	3,243	1,429	7,121	2,054	2,345	-	10,058	16,432	63,926
Afterschool programming	-	-	158,270	-	-	-	-	-	-	158,270
Subscriptions and memberships	-	868	244	61	190	156	8	5,568	537	7,632
Interest, fees, licenses, and miscellaneous	2,910	2,302	200	19,326	5,305	43	34	58,583	2,372	91,075
In-kind gifts	-	-	-	-	247,753	-	-	-	25,936	273,689
Bad debts	-	-	-	-	-	1,529	-	-	26,219	27,748
Total expenses before depreciation	1,657,558	1,248,002	807,495	1,507,210	958,721	539,610	88,267	680,606	766,085	8,253,555
Depreciation	16,793	30,109	19,445	36,500	23,963	13,072	2,095	18,060	17,977	178,014
Total expenses	\$ 1,674,351	\$ 1,278,111	\$ 826,940	\$ 1,543,710	\$ 982,684	\$ 552,682	\$ 90,362	\$ 698,666	\$ 784,062	\$ 8,431,569

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, 2012

	Program Services							Supporting Services		Total Expenses
	East End Preparatory	Child Development	Reading	Youth Services	Community Services	Family Education	Family Resource	Management and General	Development and Fund Raising	
Salaries	\$ 502,022	\$ 828,700	\$ 431,733	\$ 915,557	\$ 346,906	\$ 290,325	\$ 53,532	\$ 99,491	\$ 402,913	\$ 3,871,179
Employee benefits	95,117	70,409	24,646	83,963	25,706	33,429	7,389	15,953	39,761	396,373
Payroll taxes	38,803	49,480	32,916	67,539	25,698	21,447	3,984	14,758	28,310	282,935
Total personnel costs	635,942	948,589	489,295	1,067,059	398,310	345,201	64,905	130,202	470,984	4,550,487
Professional services	67,998	17,531	4,396	47,864	15,333	3,084	2,222	70,254	8,878	237,560
Insurance	8,777	6,909	573	5,954	4,214	1,115	876	1,843	879	31,140
Food and supplies	65,782	96,784	54,596	95,872	43,621	46,266	1,215	75,522	21,045	500,703
Client assistance	-	-	-	4,977	-	27,230	20	3,094	70	35,391
Communications	17,316	4,746	409	11,280	3,521	808	1,204	8,550	38,114	85,948
Utilities	-	16,915	1,404	18,557	10,317	2,730	2,144	7,462	2,152	61,681
Building and grounds maintenance	40,137	19,422	1,587	18,650	16,052	3,086	2,424	9,231	2,467	113,056
Equipment maintenance and repair	3,264	3,059	193	3,372	4,197	610	296	1,661	5,050	21,702
Vehicles and travel	888	5,016	4,639	12,115	11,369	3,665	486	8,123	1,048	47,349
Professional development	23,219	2,373	3,770	3,326	1,604	1,724	-	8,698	1,327	46,041
Afterschool programming	-	-	154,310	-	-	-	-	-	-	154,310
Subscriptions and memberships	90	539	201	175	240	111	24	1,476	24	2,880
Interest, fees, licenses, and in-kind gifts	17,765	4,284	589	33,843	643	31	24	33,659	19,520	110,358
Bad debts	-	-	-	-	-	-	-	-	9,400	9,400
Total expenses before depreciation	881,178	1,126,167	715,962	1,323,044	509,421	435,661	75,840	359,775	580,958	6,008,006
Depreciation	4,622	25,350	16,387	29,938	7,257	11,499	1,708	10,243	13,084	120,088
Total expenses	\$ 885,800	\$ 1,151,517	\$ 732,349	\$ 1,352,982	\$ 516,678	\$ 447,160	\$ 77,548	\$ 370,018	\$ 594,042	\$ 6,128,094

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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 832,801	\$ (843,356)
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	178,015	120,088
Net change in allowance for uncollectible promises	9,400	(32,733)
Net changes in other assets and liabilities:		
Grants receivable	36,057	(346,078)
Other receivables	(167,902)	115,035
Unrestricted unconditional promises to give	(29,124)	59,306
Temporarily restricted unconditional promises to give	(751,602)	630,030
Prepaid expenses	(47,520)	13,833
Accounts payable	46,811	(19,930)
Accrued liabilities	172,487	(30,859)
Deferred grant revenue	-	(38,610)
Net cash provided by (used in) operating activities	<u>279,423</u>	<u>(373,274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(412,260)</u>	<u>(98,063)</u>
Net cash used in investing activities	<u>(412,260)</u>	<u>(98,063)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of capital lease obligations	<u>(6,152)</u>	<u>(5,911)</u>
Net cash used in financing activities	<u>(6,152)</u>	<u>(5,911)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(138,989)	(477,248)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,173,624</u>	<u>1,650,872</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 1,034,635</u></u>	<u><u>\$ 1,173,624</u></u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash payments for interest on capital lease obligations	\$ 417	\$ 658

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

MARTHA O'BRYAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

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 East End Preparatory, child development, reading, 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.

During 2011, the Center received funding for a charter school, East End Preparatory ("EEP") School, in East Nashville. EEP plans to provide kindergarten through grade five students with the academic foundation necessary to excel in middle school and beyond, while fully integrating familial and community support to help them achieve their goals. EEP opened in August 2011 with four kindergarten classes and plans to add an additional grade each year culminating with the addition of a fifth grade in the 2016-2017 fiscal year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2013 and 2012 in these financial statements refer to the years ended June 30, 2013 and 2012, respectively, unless otherwise noted.

Basis of Accounting

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

Contributions and 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 4 for further details.

Grant Revenues and Receivables

Grant revenues are recognized when qualified reimbursable expenses are incurred or when services are performed. Grant funds received in advance are recognized as deferred grant revenue until earned. Grant receivables represent amounts due from grants which have been earned but not received. All grant receivables are reported at estimated collectible amounts.

MARTHA O'BRYAN CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant Revenues and Receivables

The Center received Federal financial assistance through state agencies, as well as state and local government grants. The expenditure of funds received under these programs generally required compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center as of June 30, 2013.

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.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, unconditional promises to give, accounts payable, accrued liabilities and capital lease obligation approximate fair value because of the short maturity of these instruments.

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 Center recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The Center receives services from a large number of volunteers who give significant amounts of their time to the Center's programs and fund-raising campaigns but which do not meet the criteria for financial statement recognition.

MARTHA O'BRYAN CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Center files an annual information return (Form 990) with the U.S. government. At June 30, 2013, the Center is no longer subject to U.S. tax examinations of these information returns by tax authorities for years before June 30, 2010.

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. The Center accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Center include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax. The Center has determined that such tax positions do not result in an uncertainty requiring recognition.

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 9 for further details.

Events Occurring After Reporting Date

The Center has evaluated events and transactions that occurred between June 30, 2013 and March 25, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 – SIGNIFICANT SUPPORT

The Center receives a substantial amount of its support from various governmental agencies 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, 2013 AND 2012

NOTE 4 – PROMISES TO GIVE

Unconditional promises to give consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unrestricted promises to give	\$ 83,660	\$ 54,536
Temporarily restricted promises to give	1,040,479	288,877
Gross promises to give	1,124,139	343,413
Less allowance for uncollectible promises	(11,667)	(2,267)
Net promises to give	1,112,472	341,146
Promises receivable due in less than one year	336,389	259,398
Promises receivable due within one to five years	<u>\$ 776,083</u>	<u>\$ 81,748</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,150	\$ 1,150
Buildings and improvements	3,782,602	3,583,128
Equipment	666,068	555,743
Vehicles	133,033	30,572
Fixtures	78,839	78,839
Total cost	4,661,692	4,249,432
Less accumulated depreciation and amortization	(2,504,368)	(2,326,353)
Property and equipment, net	<u>\$ 2,157,324</u>	<u>\$ 1,923,079</u>

NOTE 6 – LEASES

During 2010, the Center financed the purchase of a copier with a capital lease at an imputed interest rate of 4% and capitalized cost of \$29,822. Accumulated depreciation at June 30, 2013 in the statement of financial position includes \$23,856 related to the copier. Depreciation expense reported in the statement of activities for 2013 and 2012 includes \$5,964 for the copier under the capital lease.

During 2012, the Center began renting educational space from the Metropolitan Government of Nashville for its charter school, East End Prep. The current lease term ends June 30, 2014. The Center also leases copiers under the terms of non-cancellable operating leases. Rent expense under all leases totaled \$92,616 and \$33,645 for 2013 and 2012, respectively.

MARTHA O'BRYAN CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012**

NOTE 6 – LEASES (CONTINUED)

Future minimum lease payments under noncancellable leases as of June 30, 2013 are as follows:

	<u>Capital Lease</u>	<u>Operating Leases</u>
Fiscal years ending June 30,:		
2014	\$ 9,828	\$ 186,431
2015	819	4,870
Total payments	<u>10,647</u>	<u>\$ 191,301</u>
Less amount representing interest	(168)	
Less amount representing executory costs	<u>(3,411)</u>	
Present value of minimum lease payments	<u>\$ 7,068</u>	

NOTE 7 – NOTES PAYABLE

The Center has an agreement with a local financial institution for an unsecured revolving line of credit with a maximum availability of \$300,000. Any outstanding borrowings and all accrued interest are due on August 23, 2013. Interest is payable monthly at the institution's prime rate of interest plus 0.5%, but in no event will the rate be less than 4%. There were no amounts outstanding under this line of credit at June 30, 2013.

NOTE 8 – RETIREMENT PLANS

The Center maintains a 401(k) retirement plan. Employees are eligible to participate in the 401(k) plan after completing one year of service and attaining age eighteen. The Center may make matching contributions to the plan on a discretionary basis.

EEP certified teachers participate in the State Employees, Teachers, and Higher Education Employees Pension Plan, a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System. The Center contributed 8.88% of covered payroll to the plan for 2013 (9.05% for 2012). All other EEP employees participate in the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan, a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. The Center contributed 15.938% of covered payroll for support employees to the plan for 2013 (15.416% for 2012).

The total employer expense of the Center for all of the above plans was \$154,992 and \$95,569 for 2013 and 2012, respectively.

MARTHA O'BRYAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 9 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
For subsequent fiscal years	\$ 987,624	\$ 288,877
For specific purposes:		
Employee infrastructure expansion	87,475	260,227
Frist renovations	-	211,000
Neighborhood builders	27,409	92,172
Thrive	53,639	28,036
Tied Together	5,000	8,482
Promise Neighborhood	118,733	57,531
Educational assistance	26,922	27,650
Work Ready	35,000	80,000
Joyful Noise	53,024	13,024
All others (less than \$10,000 individually in either year)	5,000	29,444
Total	<u>\$ 1,399,826</u>	<u>\$ 1,096,443</u>

There were no permanently restricted net assets at June 30, 2013 and 2012. Cash and cash equivalents include \$412,203 and \$807,567 of temporarily restricted cash at June 30, 2013 and 2012.

NOTE 10 – RELATED PARTIES

The Center receives funding from the Martha O'Bryan Foundation Inc. ("Foundation"), a related entity which is governed by a separate Board of Directors. A total of \$34,239 and \$23,670 was received from the Foundation during 2013 and 2012, respectively.

NOTE 11 – RECLASSIFICATIONS

Certain amounts for 2012 have been reclassified to be consistent with the presentation for 2013. These reclassifications did not have a significant effect on the Center's previously reported financial position, changes in net assets, and cash flows.

ADDITIONAL INFORMATION

MARTHA O'BRYAN CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013**

CFDA Number	Program Name	Grant/Contract Number	Pass-through Grantor Agency	Beginning Receivable, (Deferred)	Cash Receipts	Expenditures	Ending Receivable, (Deferred)
<u>Federal Awards:</u>							
94.006	AmeriCorps	DG-05-01914-06 & Z-05-037379-05	Tennessee Dept. of Finance and Administration	\$ 27,095	\$ 268,424	\$ 259,293	\$ 17,964
84.287C	21st Century Community Learning Center	DG13-C0000043	Tennessee Department of Education	105,957	298,468	343,127	150,616
84.282A	EEP Planning Grant	U282A090013	Tennessee Department of Education	101,292	205,832	111,100	6,560
84.215P	Promise Neighborhood	U215P110075	United States Department of Education	24,005	300,777	322,732	45,960
10.561	Food Stamp Employment and Training	33710-76313	Tennessee Department of Labor and Workforce Dev	4,013	35,084	77,575	46,504
Subtotal to next page				<u>\$ 262,362</u>	<u>\$ 1,108,585</u>	<u>\$ 1,113,827</u>	<u>\$ 267,604</u>

Basis of Presentation: The above schedule is prepared on the accrual basis of accounting.

MARTHA O'BRYAN CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

CFDA Number	Program Name	Grant/Contract Number	Pass-through Grantor Agency	Beginning Receivable, (Deferred)	Cash Receipts	Expenditures	Ending Receivable, (Deferred)
Federal Awards (continued):							
Subtotal from previous page				\$ 262,362	\$ 1,108,585	\$ 1,113,827	\$ 267,604
84.010	Title I Grants to Local Educational Agencies (passed through Metro Nashville Public Schools)	n/a	Tennessee Department of Education	-	120,980	120,980	-
84.027	Special Education Grants to States	n/a	Tennessee Department of Education	-	21,328	21,328	-
84.395A	Tennessee College Access and Success Network	n/a	Tennessee Department of Education	-	58,924	58,924	-
10.555	National School Lunch Program	n/a	Tennessee Department of Education	7,207	105,793	109,808	11,222
Total Federal Awards				\$ 269,569	\$ 1,415,610	\$ 1,424,867	\$ 278,826

Basis of Presentation: The above schedule is prepared on the accrual basis of accounting.

MARTHA O'BRYAN CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

CFDA Number	Program Name	Grant/Contract Number	Grantor Agency	Beginning Receivable, (Deferred)	Cash Receipts	Expenditures	Ending Receivable, (Deferred)
<u>State Financial Assistance:</u>							
N/A	CACFP	03-47-50955-00-9	Tennessee Dept. of Human Services	\$ 19,725	\$ 120,538	\$ 111,524	\$ 10,711
N/A	Tied Together Program	GR1238698	Department of Children's Services	100,000	184,863	107,868	23,005
N/A	Basic Education Program- Capital Outlay	n/a	Tennessee Department of Education	-	27,000	27,000	-
N/A	LEAPs	33119-01512	Tennessee Department of Education	-	61,927	88,805	26,878
Total State Financial Assistance				<u>\$ 119,725</u>	<u>\$ 394,328</u>	<u>\$ 335,197</u>	<u>\$ 60,594</u>
Total Federal Awards and State Financial Assistance				<u>\$ 389,294</u>	<u>\$ 1,809,938</u>	<u>\$ 1,760,064</u>	<u>\$ 339,420</u>

Basis of Presentation: The above schedule is prepared on the accrual basis of accounting.

MARTHA O'BRYAN CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

CFDA Number	Program Name	Grant/Contract Number	Grantor Agency	Beginning Receivable, (Deferred)	Cash Receipts	Expenditures	Ending Receivable, (Deferred)
Total Federal Awards and State Financial Assistance per previous page				\$ 389,294	\$ 1,809,938	\$ 1,760,064	\$ 339,420
<u>Memo Item - Local Government Financial Assistance:</u>							
N/A	Community Enhancement	L-2317	Metro Govt of Nashville and Davidson County	\$ 19,517	\$ 86,183	\$ 100,000	\$ 33,334
Total Government Grants reported in the Financial Statements				\$ 408,811	\$ 1,896,121	\$ 1,860,064	\$ 372,754

Basis of Presentation: The above schedule is prepared on the accrual basis of accounting.

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

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

We have audited, 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, the financial statements of Martha O'Bryan Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Martha O'Bryan Center, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Martha O'Bryan Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2013-1, that we consider to be a significant deficiency.

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*

Martha O'Bryan Center, Inc.'s Response to Findings

Martha O'Bryan Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Martha O'Bryan Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Brentwood, Tennessee
March 25, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Martha O'Bryan Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Martha O'Bryan Center, Inc.'s major federal programs for the year ended June 30, 2013. Martha O'Bryan Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Martha O'Bryan Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Martha O'Bryan Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Martha O'Bryan Center, Inc.'s compliance.

Report on Internal Control Over Compliance

Management of Martha O'Bryan Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Martha O'Bryan Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Martha O'Bryan Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-1 to be a significant deficiency.

Martha O'Bryan Center, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Martha O'Bryan Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mullins Clemmons & Mayes, PLLC

Brentwood, Tennessee
March 25, 2014

MARTHA O'BRYAN CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- The auditors' report expresses an unmodified opinion on the financial statements of Martha O'Bryan Center, Inc.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards:

- One significant deficiency disclosed during the audit of the financial statements is reported.
- No material weaknesses are reported.
- No instances of noncompliance material to the financial statements are disclosed during the audit.

Federal Awards

- Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133:
 - The auditors' report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
 - One significant deficiency in internal control over major federal award programs is reported.
 - No material weaknesses are reported
- There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The programs tested as major programs included the following:
 - CFDA #84.287C 21 Century Community Learning Center
 - CFDA #84.215P Promise Neighborhood
 - CFDA #10.555 National School Lunch Program
- The threshold for distinguishing between Type A and Type B programs was \$300,000.
- Martha O'Bryan Center, Inc. did not qualify to be treated as a low-risk auditee.

MARTHA O'BRYAN CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

FINDINGS – FINANCIAL STATEMENTS AUDIT

Finding 2013-001 – Payroll charges to programs and grants

Condition: Payroll expenses were sometimes incorrectly allocated to the wrong programs.

Criteria: Internal controls should be in place that provide reasonable assurance that employee payroll expenses are charged to the correct programs and grants.

Cause and Effect: Manual timesheets are prepared for employees for every two-week pay cycle in which employees write the number of hours that should be charged to each particular program or grant. Hours are then keyed into an Excel spreadsheet by the payroll coordinator and then forwarded to the accountant for processing. Due to the numerous programs and grants and the fact that certain employees work on multiple grants, hours are occasionally charged to the wrong program or grant.

Recommendation: The use of an automated time card system, which would calculate hours on a daily basis and accumulate pay cycle totals that could be reviewed before processing, is recommended. Automation would eliminate the redundant keying now being done to accumulate total hours by employee, thus saving time and reducing the potential for errors.

View of Responsible Officials and Planned Corrective Actions: Management concurs. Martha O'Bryan Center recognizes the weakness in processing payroll by use of manual entry. Martha O'Bryan Center has implemented steps to improve the payroll process as follows:

- December 2013 - Martha O'Bryan Center signed a contract with ADP to outsource its entire payroll function, which includes an automated timekeeping system, processing of payroll, tax filings, and garnishments. ADP processed Martha O'Bryan Center's first payroll on 01/30/2014.
- April 2014 - Martha O'Bryan Center is implementing a monthly grant review process to include oversight of expenses charged to all Federal, State, and Local grant contracts. Specifically, Martha O'Bryan Center will review and monitor all personnel charged to grants and review allocation of expenses of personnel to all Federal, State, and Local grant contracts.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF EDUCATION

21st Century Community Learning Center – CFDA No. 84.287C – Passed through the Tennessee Department of Education under grant/contract # Z-09-213332-00
Grant period – year ended June 30, 2013

- The significant deficiency at Finding 2013-001 also applies to this grant. There were no questioned costs as a result of this deficiency since payroll costs were under allocated to this grant.

MARTHA O'BRYAN CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

FOLLOW-UP ON PRIOR YEAR FINDINGS

Finding 2012-1 – Reconciliation of Payroll Tax Payable Accounts

Condition: Reconciliations were not performed for the payroll tax payable account during the year.

Recommendation: The auditor recommended that all accounts be reconciled on a monthly basis before the next month's close and investigate all unreconciled differences in a timely manner so that the appropriate accounting entries can be recorded on a current basis. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: The recommendation was adopted in March 2013. No similar findings were noted in the 2013 audit.