

**McNEILLY CENTER FOR CHILDREN, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
McNeilly Center for Children, Inc.  
Nashville, TN

### Report on the Financial Statements

We have audited the accompanying financial statements of McNeilly Center for Children, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America and those applicable to audits performed under *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.

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## 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, 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016 on our consideration of the McNeilly 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* in considering McNeilly Center for Children, Inc.'s internal control over financial reporting and compliance.



Cowart Reese Sargent  
Certified Public Accountants, P.C.  
Jackson, TN

October 26, 2016

**McNEILLY CENTER FOR CHILDREN, INC**  
**Statement of Financial Position**  
**June 30, 2016**

	<u>ASSETS</u>	<u>OPERATIONS</u>		<u>Total</u>
		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	
Current Assets:				
Cash & Temporary Cash Investments		\$ 116,488	\$ 51,919	\$ 168,407
Tuition Receivable		5,727	-	5,727
Allowance for Tuition Receivable		(3,290)	-	(3,290)
Accounts Receivable - Programs		95,581	-	95,581
Prepaid Expenses		9,950	-	9,950
Total Current Assets		<u>224,456</u>	<u>51,919</u>	<u>276,375</u>
Long Term Investments		<u>127,878</u>	<u>-</u>	<u>127,878</u>
Property and equipment - At cost				
Land		65,589	-	65,589
Building		1,402,594	-	1,402,594
Equipment		523,220	-	523,220
		<u>1,991,403</u>	<u>-</u>	<u>1,991,403</u>
Less accumulated depreciation		<u>(1,357,164)</u>	<u>-</u>	<u>(1,357,164)</u>
Net Fixed Assets		<u>634,239</u>	<u>-</u>	<u>634,239</u>
<b>TOTAL ASSETS</b>		<u><b>986,573</b></u>	<u><b>51,919</b></u>	<u><b>1,038,492</b></u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable		31,146	-	31,146
Accrued Salaries and Benefits		104,683	-	104,683
Unearned Grant Revenue		10,694	-	10,694
Line of Credit		60,000	-	60,000
Total Current Liabilities		<u>206,523</u>	<u>-</u>	<u>206,523</u>
<b>TOTAL LIABILITIES</b>		<u><b>206,523</b></u>	<u><b>-</b></u>	<u><b>206,523</b></u>
Net Assets				
Net Assets - undesignated		652,172	51,919	704,091
Net Assets - designated		127,878	-	127,878
<b>TOTAL NET ASSETS</b>		<u><b>780,050</b></u>	<u><b>51,919</b></u>	<u><b>831,969</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><b>\$ 986,573</b></u>	<u><b>\$ 51,919</b></u>	<u><b>\$ 1,038,492</b></u>

The accompanying notes are an integral part of the financial statements

**McNEILLY CENTER FOR CHILDREN, INC**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

<u>PUBLIC SUPPORT &amp; REVENUE</u>	<u>OPERATIONS</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	
U.S. Dept. of Agriculture, passed through Tenn. Dept. of Human Services:			
Child Care Food Program	\$ 285,965	\$ -	\$ 285,965
DHS Revenues	227,290	-	227,290
United Way	378,431	-	378,431
Client Fee	561,176	-	561,176
Special Events and Other Fundraising	63,577	-	63,577
Grant Revenue	334,229	23,600	357,829
Gifts	11,495	-	11,495
HeadStart	246,433	-	246,433
Early HeadStart	561,600	-	561,600
Metro Social Services	4,677	-	4,677
Investment Income/(Loss) - Endowment (Net of Trust Fees \$891)	(2,759)	-	(2,759)
Interest Income	68	-	68
Total Support and Revenue	2,672,182	23,600	2,695,782
Net Assets Released From Restrictions			
Satisfaction of donor restrictions	34,240	(34,240)	-
Total Earned Revenue and Support	2,706,422	(10,640)	2,695,782
<u>EXPENSES</u>			
Program Services:			
Day Care	2,599,261	-	2,599,261
Supporting Services:			
Management and General	87,297	-	87,297
Fundraising	86,351	-	86,351
Total Expenses	2,772,909	-	2,772,909
Changes in Net Assets	(66,487)	(10,640)	(77,127)
Net Assets -			
Beginning of year	846,537	62,559	909,096
End of Year	\$ 780,050	\$ 51,919	\$ 831,969

The accompanying notes are an integral part of the financial statements

## McNEILLY CENTER FOR CHILDREN, INC

## Statement of Cash Flow

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Cash Flow from Operating Activities:			
Changes in net assets	\$ (66,487)	\$ (10,640)	\$ (77,127)
Adjustments to reconcile change in net assets to net cash used by			
Operating activities:			
Depreciation	44,225	-	44,225
Bad debt expense	6,500	-	6,500
(Increase) Decrease in accounts and tuition receivable	13,748	-	13,748
(Increase) Decrease prepaid expenses	(4,017)	-	(4,017)
Increase (Decrease) in accounts payable	(345)	-	(345)
Increase (Decrease) in salaries and wages payable	(4,782)	-	(4,782)
Increase (Decrease) in unearned revenue	(1,347)	-	(1,347)
Net cash provided (used) by operating activities	<u>(12,505)</u>	<u>(10,640)</u>	<u>(23,145)</u>
Cash Flow from Investing Activities:			
Purchase of Investments	-	-	-
Proceeds from Sales of Investments	6,700	-	6,700
Purchase of property and equipment	-	-	-
Proceeds from sales of property and equipment	-	-	-
(Gain)/Loss on Investments	2,759	-	2,759
Net cash provided (used) by investing activities	<u>9,459</u>	<u>-</u>	<u>9,459</u>
Cash Flows from Financing Activities:			
Proceeds from Line of Credit	60,000	-	60,000
Repayments to Line of Credit	(60,000)	-	(60,000)
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(3,046)	(10,640)	(13,686)
Cash and cash equivalents at beginning of year	<u>119,534</u>	<u>62,559</u>	<u>182,093</u>
Cash and cash equivalents at end of year	<u>\$ 116,488</u>	<u>\$ 51,919</u>	<u>\$ 168,407</u>
Supplemental Data:			
Interest paid	\$ 2,427		
Income tax paid	\$ -		

The accompanying notes are an integral part of the financial statements

**McNEILLY CENTER FOR CHILDREN, INC**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2016**

	PROGRAM SERVICES	SUPPORTING SERVICES			
	Child Day Care	Management & General	Fund Raising	Total	Total Expenses
Salaries	\$ 1,649,841	\$ 51,663	\$ 66,434	\$ 118,097	\$ 1,767,938
Fringe Benefits	259,927	4,566	5,606	10,172	270,099
Total Personnel Expenses	<u>1,909,768</u>	<u>56,229</u>	<u>72,040</u>	<u>128,269</u>	<u>2,038,037</u>
Travel	9,842	1,637	-	1,637	11,479
Communication	5,519	759	299	1,058	6,577
Occupancy	258,885	5,971	833	6,804	265,689
Professional Services	1,925	20,367	1,507	21,874	23,799
Sports Facilitator & Tutoring	-	-	-	-	-
Supplies	104,643	-	75	75	104,718
Repairs & Maintenance	19,668	-	-	-	19,668
Food Costs	222,253	-	-	-	222,253
Printing & Publications	1,737	524	5,677	6,201	7,938
Postage	11	368	1,261	1,629	1,640
Bad Debt Expense	6,500	-	-	-	6,500
Training & Meetings	4,292	116	-	116	4,408
Enrichment / Field Trips	3,129	-	-	-	3,129
Dues & Licenses	760	1,485	-	1,485	2,245
Minor Equipment Purchases	822	75	-	75	897
Interest Expense	2,427	-	-	-	2,427
Miscellaneous	2,457	164	4,659	4,823	7,280
Total Expenses (Before Depreciation & Loss on Disposal of Fixed Assets)	<u>2,554,638</u>	<u>87,695</u>	<u>86,351</u>	<u>174,046</u>	<u>2,728,684</u>
Depreciation Expense	44,623	(398)	-	(398)	44,225
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,599,261</u>	<u>\$ 87,297</u>	<u>\$ 86,351</u>	<u>\$ 173,648</u>	<u>\$ 2,772,909</u>

The accompanying notes are an integral part of the financial statements



**McNEILLY CENTER FOR CHILDREN, INC.**  
**Notes to the Financial Statements**  
**June 30, 2016**

**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 utilizes accounting principles generally accepted in the United States for Not-for-Profit organizations. Under such procedures, 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**

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 – Board Designated Endowment**

The Organization has adopted an investment policy for board designated Endowment funds. The policy attempts to maximize total return consistent with an acceptable level of risk. The Organization has adopted the investment provisions of ASC 958 Not-for-Profit Entities. Under ASC 958, 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.

As of June 30, 2016, the Board of Directors had designated \$127,878 of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets, and is able to be spent at the Board's discretion.

**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 of fees for services rendered, 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 and written off if payments are not received in accordance with the contractual terms.

**McNEILLY CENTER FOR CHILDREN, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2016**

**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. 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. Because of the inherent uncertainties in estimating, it is at least reasonably possible that the estimates used will change within the near term. 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. Additionally, a majority of the Organization's receivables are from these sources. Management is not aware of any planned changes in the level of funding.

**3. ACCOUNTS RECEIVABLE - PROGRAM**

At June 30, 2016 accounts receivable from the following agencies were as follows:

Head Start/Early Head Start	\$ 46,800
TDHS	18,499
CACFP	15,052
MDHA and other Metro	15,230
Total	<u>\$ 95,581</u>

**McNEILLY CENTER FOR CHILDREN, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2016**

**4. FIXED ASSETS**

The following changes in fixed assets occurred during the period July 1, 2015, through June 30, 2016:

	Balance @ 7/1/15	Additions	Deletions	Balance @ 6/30/16
Land	\$ 65,589	\$ -	\$ -	\$ 65,589
Building	1,402,590	-	-	1,402,590
Equipment	523,224	-	-	523,224
Total	1,991,403	-	-	1,991,403
Accumulated Depreciation	(1,312,939)	(44,225)	-	(1,357,164)
Total Net Fixed Assets	<u>\$ 678,464</u>	<u>\$ (44,225)</u>	<u>\$ -</u>	<u>\$ 634,239</u>

Depreciation expense for the year ended June 30, 2016, was \$44,225.

**5. LONG-TERM INVESTMENTS**

Investment assets consist primarily of securities held by 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, 2016 are as follows:

		June 30, 2016	
	Cost	Market Value	Unrealized Appreciation (Depreciation)
<u>Community Foundation Account</u>			
Community Foundation Account	134,710	127,878	(6,832)
<b>Grand Total</b>	<u>\$ 134,710</u>	<u>\$ 127,878</u>	<u>\$ (6,832)</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2016:

	Unrestricted - Board Designated
Interest & Dividend Income	\$ 1,917
Net Realized & Unrealized Gains (Losses)	(3,785)
Investment Fees	(891)
<b>Total</b>	<u>\$ (2,759)</u>

Changes in Endowment (Board Designated) net assets as of June 30, 2016 are as follows:

	Amount
Endowment net assets, beginning of year	\$ 137,337
Contributions	-
Investment Return (see above)	(2,759)
Withdrawals	(6,700)
Endowment net assets, end of year	<u>\$ 127,878</u>

**6. COMPENSATED ABSENCES**

Employees of the Organization are entitled to paid vacation depending on length of service. The Organization advances vacation leave to employees at the beginning of each fiscal year on July 1. Unused vacation leave can be carried forward past the Organization's fiscal year end June 30. Therefore, \$43,959 of vacation leave was due to employees at June 30, 2016. Accordingly, a liability has been recorded. This amount is included in the accrual for salaries and benefits in current liabilities.

**McNEILLY CENTER FOR CHILDREN, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2016**

**7. 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 Organization to the plan for the year ended June 30, 2016 was \$0.

**8. LEASES**

The Organization has a lease for office equipment that expires in December 2016. The total minimum monthly payment for the lease is \$510. Lease expense for the year ending June 30, 2016 was \$6,120. Remaining future minimum payments are for years ending June 30, 2017, is \$3,060.

**9. LINE OF CREDIT**

The Organization has a Line of Credit with Renasant Bank with a limit of \$100,000. The line is collateralized by all assets of the Organization. The maturity date is January 15, 2017. As of June 30, 2016, the interest rate in effect was 5.00%, and the outstanding balance was \$60,000.

**10. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through October 26, 2016, the date which the financial statements were available to be issued.

**- END OF NOTES -**



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**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  
 McNeilly Center for Children, Inc  
 Nashville, Tennessee

We have audited, in accordance with the 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 McNeilly Center for Children, Inc, (a nonprofit organization) (McNeilly), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered McNeilly'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 McNeilly's internal control. Accordingly, we do not express an opinion on the effectiveness of McNeilly'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. 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.

## 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*.

## 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 McNeilly's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Cowart Reese Sargent, CPAs, PC  
Jackson, TN

October 26, 2016

**McNEILLY CENTER FOR CHILDREN, INC.  
SCHEDULE OF FINDINGS AND REPSONSES  
FOR THE YEAR ENDED June 30, 2016**

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
	There were no prior findings reported	
	There are no current findings	