WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

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MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Wayne Reed Christian Childcare Center, Inc.

We have audited the accompanying statements of financial position of Wayne Reed Christian Childcare Center, Inc. (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Wayne Reed Christian Childcare 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. 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 above present fairly, in all material respects, the financial position of Wayne Reed Christian Childcare Center, Inc. as of December 31, 2008 and 2007, 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.

Mullins Clemmons & Mayes, PLLC

Brentwood, Tennessee
July 15, 2009

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WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 557,010	$ 410,520
Accounts receivable	60,413	61,375
Promises to give	25,924	29,982
Investments in marketable securities	481,573	715,695
Prepaid expenses and other assets	6,637	6,005
Total current assets	1,131,557	1,223,577
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	590,407	581,438
TOTAL ASSETS	$ 1,721,964	$ 1,805,015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 4,403	$ 10,629
Accrued liabilities	10,931	2,817
Total current liabilities	15,334	13,446
NET ASSETS:		
Unrestricted net assets:		
Designated by board for building maintenance	100,000	88,000
Invested in property and equipment	590,407	581,438
Undesignated	678,426	819,804
Total unrestricted	1,368,833	1,489,242
Temporarily restricted	131,232	146,232
Permanently restricted	206,565	156,095
Total net assets	1,706,630	1,791,569
TOTAL LIABILITIES AND NET ASSETS	$ 1,721,964	$ 1,805,015

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
State grants	$ 62,457	$ -	$ -	$ 62,457
Donations and private grants	229,040	-	50,470	279,510
Child care fees and subsidies	263,762	-	-	263,762
Fundraising events	155,294	-	-	155,294
Total	710,553	-	50,470	761,023
Net assets released from restrictions	15,000	(15,000)	-	-
Total support, revenues and reclassifications	725,553	(15,000)	50,470	761,023
NET INVESTMENT RETURN	(200,820)	-	-	(200,820)
EXPENSES:				
Program services:				
Child development	485,113	-	-	485,113
Supporting services:				
Management and general	140,997	-	-	140,997
Fundraising	19,032	-	-	19,032
Total expenses	645,142	-	-	645,142
CHANGE IN NET ASSETS	(120,409)	(15,000)	50,470	(84,939)
NET ASSETS:				
Beginning of year	1,489,242	146,232	156,095	1,791,569
End of year	$ 1,368,833	$ 131,232	$ 206,565	$ 1,706,630

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
State grants	$ 50,200	$ -	$ -	$ 50,200
Donations and private grants	348,689	15,130	25,000	388,819
Child care fees and subsidies	261,062	-	-	261,062
Fundraising events	184,585	-	-	184,585
Gain on sale of assets	6,000	-	-	6,000
Total	850,536	15,130	25,000	890,666
Net assets released from restrictions	-	-	-	-
Total support, revenues and reclassifications	850,536	15,130	25,000	890,666
NET INVESTMENT RETURN	18,931	-	-	18,931
EXPENSES:				
Program services:				
Child development	419,072	-	-	419,072
Supporting services:				
Management and general	120,581	-	-	120,581
Fundraising	28,619	-	-	28,619
Total expenses	568,272	-	-	568,272
CHANGE IN NET ASSETS	301,195	15,130	25,000	341,325
NET ASSETS:				
Beginning of year	1,188,047	131,102	131,095	1,450,244
End of year	$ 1,489,242	$ 146,232	$ 156,095	$ 1,791,569

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Services	Supporting Services		
	Child Development	Management and General	Fund-Raising	Total
Salaries	$ 272,861	$ 90,954	$ -	$ 363,815
Employee benefits	33,923	11,308	-	45,230
Payroll taxes	21,333	7,111	-	28,444
Total personnel costs	328,117	109,372	-	437,489
Fundraising expenses	-	-	19,032	19,032
Daycare supplies	57,051	-	-	57,051
Utilities	3,732	1,244	-	4,976
Contract labor	5,888	1,963	-	7,850
Office supplies	5,070	-	-	5,070
Insurance	8,747	2,916	-	11,663
Telephone	2,660	887	-	3,546
Administrative expenses	52,466	17,489	-	69,955
Total expenses before depreciation	463,730	133,870	19,032	616,632
Depreciation	21,383	7,128	-	28,510
Total expenses	$ 485,113	$ 140,997	$ 19,032	$ 645,142

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Services	Supporting Services		
	Child Development	Management and General	Fund-Raising	Total
Salaries	$ 225,083	$ 75,028	$ -	$ 300,111
Employee benefits	19,990	6,663	-	26,653
Payroll taxes	17,724	5,908	-	23,632
Total personnel costs	262,797	87,599	-	350,396
Fundraising expenses	-	-	28,619	28,619
Daycare supplies	53,674	-	-	53,674
Utilities	7,827	2,609	-	10,436
Contract labor	11,175	3,725	-	14,900
Office supplies	3,655	-	-	3,655
Insurance	11,811	3,937	-	15,748
Telephone	827	276	-	1,103
Administrative expenses	46,220	15,407	-	61,626
Total expenses before depreciation	397,986	113,552	28,619	540,157
Depreciation	21,086	7,029	-	28,115
Total expenses	$ 419,072	$ 120,581	$ 28,619	$ 568,272

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	$ (84,939)	$ 341,325
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	28,510	28,115
Gain on disposal of property and equipment	-	(6,000)
Noncash stock donations	(5,412)	(84,565)
Net losses on investments	229,269	7,433
Net changes in other assets and liabilities:		
Accounts receivable	962	16,346
Promises to give	4,058	(5,563)
Prepaid expenses and other assets	(632)	6,012
Accounts payable and accrued liabilities	1,888	2,890
Net cash provided by operating activities	173,704	305,993
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(37,479)	(1,296)
Purchases of investments	(90,027)	(365,588)
Proceeds from sale of investments	100,292	38,568
Proceeds from sale of property and equipment	-	6,000
Net cash used in investing activities	(27,214)	(322,316)
NET CHANGE IN CASH AND CASH EQUIVALENTS	146,490	(16,323)
CASH AND CASH EQUIVALENTS, BEGINNING	410,520	426,843
CASH AND CASH EQUIVALENTS, ENDING	$ 557,010	$ 410,520

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

NOTE 1 – STATEMENT OF PURPOSE

Wayne Reed Christian Childcare Center, Inc. (the "Center"), founded in 1996, is qualified as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. The primary program of the Center is the operation of a day care facility for inner city and low-income children.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2008 and 2007 in these financial statements refer to the years ended December 31, 2008 and 2007, respectively, unless otherwise noted.

Financial Statement Presentation

The Center reports 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 8 for further details.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist of receivables from parents, guardians, and governmental agencies for child care fees and subsidies and from governmental agencies for grants earned. The Center uses the allowance method to determine any uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific accounts receivable. At December 31, 2008 and 2007, management believes that all accounts receivable are fully collectible. Therefore, no allowance was deemed necessary.

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 is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Center uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At December 31, 2008 and 2007, management believes that all promises to give are fully collectible. Therefore, no allowance was deemed necessary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Under generally accepted accounting principles, investments are valued at fair value using various inputs. Level 1 inputs consist of unadjusted quoted market prices within active markets. Level 2 inputs consist primarily of quoted prices for similar assets in active or inactive markets. Level 3 inputs consist of significant unobservable inputs. The Center's investments in marketable securities are reported at fair value, based on Level 1 inputs. Gains and losses, whether realized or unrealized, are included in the statement of activities and changes in net assets.

See Note 3 for further details related to investments.

Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred; major renewals and improvements are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in revenue or expense. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Deferred Revenue

Tuition is recorded by the Center as revenue in the period to which the tuition relates. Tuition collected in the current year, which is applicable to future years, is deferred and recognized as revenue in the appropriate year.

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.

Grant Revenues

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES

Investments consist of the following at fair market value using Level 1 inputs (see Note 2), as of December 31, 2008 and 2007:

	2008	2007
Equity securities	$ 34,560	$ 67,736
Equity mutual funds	447,013	647,959
Total investments in marketable securities	$ 481,573	$ 715,695

Following are the details of the net investment return for 2008 and 2007:

	2008	2007
Interest and dividends	$ 28,447	$ 26,364
Realized gains on sale of investments	3,422	362
Unrealized depreciation in fair value of investments	(232,689)	(7,795)
Net investment return	$ (200,820)	$ 18,931

The Center utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

At December 31, 2008, the cumulative unrealized depreciation of investments is $219,283.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following, as of December 31, 2008 and 2007:

	2008	2007
Building and related improvements	$ 732,686	$ 702,445
Office equipment and computers	38,545	31,308
Kitchen equipment and cabinets	26,688	26,688
Playground equipment	54,778	54,778
Total cost	852,697	815,219
Less accumulated depreciation	(262,290)	(233,782)
Net property and equipment	$ 590,407	$ 581,438

NOTE 5 – EMPLOYEE BENEFIT PLAN

The Center maintains a 403(b) plan for its employees. Eligible employees may contribute up to 3% of their compensation into the plan. The Center matches 50% of each employee's contributions. The Center recognized $3,592 and $3,665 of costs related to this plan during 2008 and 2007, respectively.

NOTE 6 – LEASES

In 1997, the Center entered into a ground lease and operating lease with Youth Encouragement Services for the use of their premises for a period of thirty years ending December, 2026. The Center agreed to pay rent of one dollar each year of the lease. Under the terms of the leases the Center has the right of first refusal should Youth Encouragement Services desire to sell the facility.

NOTE 7 – CONCENTRATIONS

The Center maintains bank accounts whose balances may exceed FDIC insurance limits at times. The Center has not experienced any losses in such accounts, and management does not believe that they are exposed to any significant credit risks on these accounts.

See Note 3 for a description of the risks associated with the Center's investments in marketable securities.

The Center relies heavily on donations and grants to fund its operations. The loss of these funds would have a significant impact on the operations of the Center.

NOTE 8 – NET ASSETS

The State of Tennessee has passed the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Center has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit restrictions to the contrary. The Center classifies as permanently restricted net assets the sum of (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. At the current time, none of the endowment funds have donor-imposed instructions that specify accumulations, as noted in item (c) of the preceding sentence.

The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) General economic conditions;
(2) The possible effect of inflation and deflation;
(3) The expected tax consequences, if any, of investment decisions or strategies;
(4) The role that each investment or course of action plays within the overall investment portfolio;
(5) The expected total return from income and appreciation of investments;
(6) Other resources of the Center;
(7) The needs of the Center and the endowment funds to make distributions and to preserve capital; and
(8) An asset's special relationship or special value, if any, to the charitable purposes of the Center.

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period as well as any entity-designated funds.

To satisfy its long-term return objectives, the Center relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

NOTE 8 – NET ASSETS (CONTINUED)

Permanently restricted net assets consist of the following at December 31, 2008 and 2007:

	2008	2007
Donor-restricted endowment fund	$ 206,565	$ 156,095

The above amount represents the original principal amount of the donor contributions to the Center's endowment fund. The investments of the endowment fund are commingled with other investments of the Center. Therefore, the components of investment return that are specifically related to the endowment fund have not been determined. From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. As noted in Note 3, the cumulative unrealized depreciation of investments is $219,283 at December 31, 2008. A portion of this unrealized depreciation would be allocable to the endowment fund assets, thus creating a deficiency. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Center.

Temporarily restricted net assets were available for the following purposes at December 31, 2008 and 2007:

	2008	2007
Multicultural center	$ 131,232	$ 131,232
Office buildout	-	15,000
Total temporarily restricted assets	$ 131,232	$ 146,232

The entire release of temporarily restricted net assets for 2008 related to the completion of the office buildout.

NOTE 9 – FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") in order to establish a single definition of fair value and a framework for measuring fair value on a consistent basis. SFAS 157 also expands disclosures about fair value measurements. SFAS 157 applies whenever other authoritative literature requires or permits certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. SFAS 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007.

NOTE 9 – FAIR VALUE MEASUREMENTS (CONTINUED)

In early 2008, the FASB issued Staff Position (FSP) FAS-157-2, *Effective Date of FASB Statement No. 157*, which delayed, by one year, the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertains to items including, but not limited to, non-financial assets and non-financial liabilities initially measured at fair value in a business combination, non-financial assets (such as real estate or donations in kind) recorded at fair value at the time of donation, and long-lived assets measured at fair value for impairment assessment. The Center does not expect SFAS 157 to have a significant effect on the determination of fair values related to non-financial assets and non-financial liabilities in post-2008 years.

NOTE 10 – RECLASSIFICATIONS

Certain amounts for 2007 were reclassified for consistency with the 2008 presentation. These reclassifications did not have a significant effect on the previously reported 2007 amounts.