

**WAYNE REED CHRISTIAN  
CHILDCARE CENTER, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 and 2006**

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**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, 2007 and 2006, 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, 2007 and 2006, 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 9, 2008

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2007 AND 2006

	2007	2006
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 410,520	\$ 426,843
Accounts receivable	91,357	102,140
Investments in marketable securities	715,695	311,543
Prepaid expenses and other assets	6,005	12,017
Total current assets	<u>1,223,577</u>	<u>852,543</u>
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>581,438</u>	<u>608,257</u>
TOTAL ASSETS	<u>\$ 1,805,015</u>	<u>\$ 1,460,800</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 13,446	\$ 10,556
Total current liabilities	<u>13,446</u>	<u>10,556</u>
NET ASSETS:		
Unrestricted net assets:		
Designated by board for building maintenance	88,000	76,000
Invested in property and equipment	581,438	608,257
Undesignated	819,804	503,790
Total unrestricted	<u>1,489,242</u>	<u>1,188,047</u>
Temporarily restricted	146,232	131,102
Permanently restricted	156,095	131,095
Total net assets	<u>1,791,569</u>	<u>1,450,244</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,805,015</u>	<u>\$ 1,460,800</u>

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
Investment earnings	18,931			18,931
Gain on sale of assets	6,000	-	-	6,000
Total	<u>869,467</u>	<u>15,130</u>	<u>25,000</u>	<u>909,597</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>869,467</u>	<u>15,130</u>	<u>25,000</u>	<u>909,597</u>
EXPENSES:				
Program services:				
Child development	419,071	-	-	419,071
Supporting services:				
Management and general	120,582	-	-	120,582
Fundraising	28,619	-	-	28,619
Total expenses	<u>568,272</u>	<u>-</u>	<u>-</u>	<u>568,272</u>
CHANGE IN NET ASSETS	301,195	15,130	25,000	341,325
NET ASSETS:				
Beginning of year	<u>1,188,047</u>	<u>131,102</u>	<u>131,095</u>	<u>1,450,244</u>
End of year	<u>\$ 1,489,242</u>	<u>\$ 146,232</u>	<u>\$ 156,095</u>	<u>\$ 1,791,569</u>

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, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
State grants	\$ 60,200	\$ -	\$ -	\$ 60,200
Donations and private grants	184,380	151,102	-	335,482
Child care fees and subsidies	273,566	-	-	273,566
Fundraising events	169,392	-	-	169,392
Investment earnings	14,874	-	-	14,874
Total	702,412	151,102	-	853,514
Net assets released from restrictions	35,000	(35,000)	-	-
Total support and revenues	737,412	116,102	-	853,514
EXPENSES:				
Program services:				
Child development	428,101	-	-	428,101
Supporting services:				
Management and general	124,109	-	-	124,109
Fundraising	13,818	-	-	13,818
Total expenses	566,028	-	-	566,028
CHANGE IN NET ASSETS	171,384	116,102	-	287,486
NET ASSETS:				
Beginning of year	1,016,663	15,000	131,095	1,162,758
End of year	\$ 1,188,047	\$ 131,102	\$ 131,095	\$ 1,450,244

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	46,219	15,407	-	61,626
Total expenses before depreciation	397,985	113,553	28,619	540,157
Depreciation	21,086	7,029	-	28,115
Total expenses	<u>\$ 419,071</u>	<u>\$ 120,582</u>	<u>\$ 28,619</u>	<u>\$ 568,272</u>

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, 2006

	Program Services	Supporting Services		
	Child Development	Management and General	Fund- Raising	Total
Salaries	\$ 228,070	\$ 76,023	\$ -	\$ 304,093
Employee benefits	22,834	7,611	-	30,445
Payroll taxes	17,588	5,863	-	23,451
Total personnel costs	268,492	89,497	-	357,989
Fundraising expenses	-	-	13,818	13,818
Daycare supplies	50,378	-	-	50,378
Utilities	7,362	2,454	-	9,816
Contract labor	16,037	5,345	-	21,382
Office supplies	5,393	-	-	5,393
Insurance	14,314	4,771	-	19,085
Telephone	3,172	1,057	-	4,229
Administrative expenses	41,930	13,977	-	55,907
Total expenses before depreciation	407,078	117,101	13,818	537,997
Depreciation	21,023	7,008	-	28,031
Total expenses	<u>\$ 428,101</u>	<u>\$ 124,109</u>	<u>\$ 13,818</u>	<u>\$ 566,028</u>

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



WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 341,325	\$ 287,486
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	28,115	28,031
Gain on disposal of property and equipment	(6,000)	-
Noncash stock donations	(84,565)	(139,001)
Net (gains) losses on investments	7,433	(14,087)
Net changes in other assets and liabilities:		
Accounts receivable	10,783	94,608
Prepaid expenses and other assets	6,012	2,018
Accounts payable	2,890	7,090
Net cash provided by operating activities	<u>305,993</u>	<u>266,145</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,296)	(20,308)
Purchases of investments	(365,588)	(144,994)
Proceeds from sale of investments	38,568	134,686
Proceeds from sale of property and equipment	6,000	-
Net cash used in investing activities	<u>(322,316)</u>	<u>(30,616)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(16,323)	235,529
CASH AND CASH EQUIVALENTS, BEGINNING	<u>426,843</u>	<u>191,314</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 410,520</u>	<u>\$ 426,843</u>

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

**WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**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**

**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, 2007 and 2006, management believed that all accounts receivable were fully collectible. Therefore, no allowance was deemed necessary.

**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 promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**Investments**

The Center accounts for its investments in debt and equity securities in accordance with Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* ("SFAS 124"). Under SFAS 124, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. See Note 3 for further details.

**WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES**

Investments consist of the following, at fair market value, as of December 31, 2007 and December 31, 2006:

	<u>2007</u>	<u>2006</u>
Equity securities	\$ 67,736	\$ 52,660
Equity mutual funds	647,959	258,883
Total investments in marketable securities	<u>\$ 715,695</u>	<u>\$ 311,543</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2007</u>	<u>2006</u>
Building and related improvements	\$ 702,445	\$ 702,445
Office equipment and computers	31,308	31,308
Kitchen equipment and cabinets	26,688	26,688
Playground equipment	54,778	53,484
Vehicles	-	26,093
Total cost	815,219	840,018
Less accumulated depreciation	(233,781)	(231,761)
Net property and equipment	<u>\$ 581,438</u>	<u>\$ 608,257</u>

**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 \$3,665 and \$3,342 of costs related to this plan during 2007 and 2006, respectively.

**WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007 AND 2006**

**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. 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.

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 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets were available for the following purposes at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Multicultural center	\$ 131,232	\$ 131,102
Office buildout	15,000	-
Total temporarily restricted net assets	<u>\$ 146,232</u>	<u>\$ 131,102</u>

Permanently restricted net assets consisted of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Endowment fund	<u>\$ 156,095</u>	<u>\$ 131,095</u>