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

FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

TABLE OF CONTENTS

Independent Auditors' Report	2
Financial Statements as of December 31, 2004 and 2003 and for the Years then ended:	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9 - 12

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, 2004 and 2003, 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, 2004 and 2003, 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
June 23, 2005

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 234,037	\$ 195,931
Accounts receivable	106,581	70,999
Prepaid expenses and other assets	11,224	10,480
Total current assets	<u>351,842</u>	<u>277,410</u>
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>636,129</u>	<u>650,760</u>
TOTAL ASSETS	<u>\$ 987,971</u>	<u>\$ 928,170</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,552	\$ -
Total current liabilities	<u>6,552</u>	<u>-</u>
NET ASSETS:		
Unrestricted net assets:		
Designated by board for building maintenance	52,000	40,000
Invested in property and equipment	636,129	650,760
Undesignated	240,365	208,685
Total unrestricted	<u>928,494</u>	<u>899,445</u>
Temporarily restricted	18,000	5,000
Permanently restricted	34,925	23,725
Total net assets	<u>981,419</u> ^{ok}	<u>928,170</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 987,971</u>	<u>\$ 928,170</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, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES:				
State grants	\$ 34,626	\$ -	\$ -	\$ 34,626
Donations and private grants	243,165	18,000	11,200	272,365
Child care fees and subsidies	254,261	-	-	254,261
Fund-raising events	39,840	-	-	39,840
Interest income	2,080	-	-	2,080
Total	<u>573,972</u>	<u>18,000</u>	<u>11,200</u>	<u>603,172</u> <i>65317</i>
Net assets released from restrictions	<u>5,000</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>578,972</u>	<u>13,000</u>	<u>11,200</u>	<u>603,172</u> <i>+3531</i>
EXPENSES:				
Program services:				
Child development	479,507	-	-	479,507
Supporting services:				
Management and general	56,973	-	-	56,973
Fundraising	13,443	-	-	13,443
Total expenses	<u>549,923</u>	<u>-</u>	<u>-</u>	<u>549,923</u> ✓
CHANGE IN NET ASSETS	29,049	13,000	11,200	53,249
NET ASSETS:				
Beginning of year	<u>899,445</u>	<u>5,000</u>	<u>23,725</u>	<u>928,170</u>
End of year	<u>\$ 928,494</u>	<u>\$ 18,000</u>	<u>\$ 34,925</u>	<u>\$ 981,419</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, 2003**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES:				
State grants	\$ 80,303	\$ -	\$ -	\$ 80,303
Donations and private grants	236,480	5,000	23,725	265,205
Child care fees and subsidies	245,920	-	-	245,920
Fund-raising events	21,500	-	-	21,500
Interest income	573	-	-	573
Total	<u>584,776</u>	<u>5,000</u>	<u>23,725</u>	<u>613,501</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>584,776</u>	<u>5,000</u>	<u>23,725</u>	<u>613,501</u>
EXPENSES:				
Program services:				
Child development	445,850	-	-	445,850
Supporting services:				
Management and general	50,102	-	-	50,102
Fundraising	7,264	-	-	7,264
Total expenses	<u>503,216</u>	<u>-</u>	<u>-</u>	<u>503,216</u>
CHANGE IN NET ASSETS	81,560	5,000	23,725	110,285
NET ASSETS:				
Beginning of year	<u>817,885</u>	<u>-</u>	<u>-</u>	<u>817,885</u>
End of year	<u>\$ 899,445</u>	<u>\$ 5,000</u>	<u>\$ 23,725</u>	<u>\$ 928,170</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, 2004**

	Program Services	Supporting Services		Total
	Child Development	Management and General	Fund- Raising	
Salaries	\$ 290,582	\$ 17,513	\$ -	\$ 308,095
Employee benefits	18,412	6,137	-	24,549
Payroll taxes	24,034	1,340	-	25,374
Total personnel costs	333,028	24,990	-	358,018
Fund-raising expenses	-	-	13,443	13,443
Daycare supplies	47,849	-	-	47,849
Utilities	8,539	2,846	-	11,385
Contract labor	10,941	3,647	-	14,588
Office supplies	4,113	1,371	-	5,484
Insurance	12,766	4,255	-	17,021
Telephone	3,311	1,103	-	4,414
Administrative expenses	36,926	11,416	-	48,342
Total expenses before depreciation	457,473	49,628	13,443	520,544
Depreciation	22,034	7,345	-	29,379
Total expenses	<u>\$ 479,507</u>	<u>\$ 56,973</u>	<u>\$ 13,443</u>	<u>\$ 549,923</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, 2003**

	Program Services	Supporting Services		
	Child Development	Management and General	Fund- Raising	Total
Salaries	\$ 275,733	\$ 16,554	\$ -	\$ 292,287
Employee benefits	20,565	6,855	-	27,420
Payroll taxes	22,675	1,266	-	23,941
Total personnel costs	318,973	24,675	-	343,648
Fund-raising expenses	-	-	7,264	7,264
Daycare supplies	47,023	-	-	47,023
Utilities	6,791	2,264	-	9,055
Contract labor	5,104	1,701	-	6,805
Office supplies	4,014	1,338	-	5,352
Insurance	10,850	3,617	-	14,467
Telephone	2,624	874	-	3,498
Administrative expenses	29,019	8,482	-	37,501
Total expenses before depreciation	424,398	42,951	7,264	474,613
Depreciation	21,452	7,151	-	28,603
Total expenses	<u>\$ 445,850</u>	<u>\$ 50,102</u>	<u>\$ 7,264</u>	<u>\$ 503,216</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, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 53,249	\$ 110,285
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	29,379	28,603
Net changes in other assets and liabilities:		
Accounts receivable	(35,582)	12,048
Prepaid expenses and other assets	(744)	(2,679)
Accounts payable	6,552	(2,986)
Net cash provided by operating activities	<u>52,854</u>	<u>145,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(14,748)</u>	<u>(5,932)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	38,106	139,339
CASH AND CASH EQUIVALENTS, BEGINNING	<u>195,931</u>	<u>56,592</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 234,037</u>	<u>\$ 195,931</u>

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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, 2004 and 2003, 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.

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.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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.

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.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2004</u>	<u>2003</u>
Building and related improvements	\$ 686,666	\$ 686,666
Office equipment and computers	21,095	13,909
Kitchen equipment and cabinets	24,598	17,036
Playground equipment	53,484	53,484
Vehicles	29,093	29,093
Total cost	814,936	800,188
Less accumulated depreciation	(178,807)	(149,428)
Net property and equipment	<u>\$ 636,129</u>	<u>\$ 650,760</u>

NOTE 4 – 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 \$3,840 and \$3,987 of costs related to this plan during 2004 and 2003, respectively.

NOTE 5 – 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 6 – 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.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003

NOTE 7 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Technology improvements	\$ -	\$ 5,000
Daycare scholarships	\$ 18,000	\$ -

Permanently restricted net assets consisted of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Endowment fund	\$ 34,925	\$ 23,725