

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, 2006 and 2005, 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, 2006 and 2005, 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.



Brentwood, Tennessee
June 26, 2007

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

	2006	2005
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 426,843	\$ 191,314
Accounts receivable	102,140	196,748
Investments in marketable securities	311,543	148,147
Prepaid expenses and other assets	12,017	14,035
Total current assets	852,543	550,244
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	608,257	615,980
TOTAL ASSETS	<u>\$ 1,460,800</u>	<u>\$ 1,166,224</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,556	\$ 3,466
Total current liabilities	10,556	3,466
NET ASSETS:		
Unrestricted net assets:		
Designated by board for building maintenance	76,000	64,000
Invested in property and equipment	608,257	615,980
Undesignated	503,790	336,683
Total unrestricted	1,188,047	1,016,663
Temporarily restricted	131,102	15,000
Permanently restricted	131,095	131,095
Total net assets	1,450,244	1,162,758
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,460,800</u>	<u>\$ 1,166,224</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
Fund-raising 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 ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
State grants	\$ 62,694	\$ -	\$ -	\$ 62,694
Donations and private grants	259,106	15,000	96,170	370,276
Child care fees and subsidies	276,798	-	-	276,798
Fund-raising events	30,821	-	-	30,821
Investment earnings	9,421	-	-	9,421
Total	638,840	15,000	96,170	750,010
Net assets released from restrictions	18,000	(18,000)	-	-
Total support and revenues	656,840	(3,000)	96,170	750,010
EXPENSES:				
Program services:				
Child development	433,805	-	-	433,805
Supporting services:				
Management and general	123,688	-	-	123,688
Fundraising	11,178	-	-	11,178
Total expenses	568,671	-	-	568,671
CHANGE IN NET ASSETS	88,169	(3,000)	96,170	181,339
NET ASSETS:				
Beginning of year	928,494	18,000	34,925	981,419
End of year	\$ 1,016,663	\$ 15,000	\$ 131,095	\$ 1,162,758

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
Fund-raising 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.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Services	Supporting Services		
	Child Development	Management and General	Fund- Raising	Total
Salaries	\$ 238,620	\$ 79,540	\$ -	\$ 318,160
Employee benefits	20,526	6,842	-	27,368
Payroll taxes	19,366	6,455	-	25,821
Total personnel costs	278,512	92,837	-	371,349
Fund-raising expenses	-	-	11,178	11,178
Daycare supplies	52,095	-	-	52,095
Utilities	8,701	2,901	-	11,602
Contract labor	14,648	4,883	-	19,531
Office supplies	3,111	-	-	3,111
Insurance	13,194	4,398	-	17,592
Telephone	2,497	832	-	3,329
Administrative expenses	41,005	11,156	-	52,161
Total expenses before depreciation	413,763	117,007	11,178	541,948
Depreciation	20,042	6,681	-	26,723
Total expenses	<u>\$ 433,805</u>	<u>\$ 123,688</u>	<u>\$ 11,178</u>	<u>\$ 568,671</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, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 287,486	\$ 181,339
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	28,031	26,723
Loss on disposal of property and equipment	-	650
Noncash stock donations	(139,001)	(12,803)
Unrealized gain on investments	(14,087)	(4,256)
Net changes in other assets and liabilities:		
Accounts receivable	94,608	(90,167)
Prepaid expenses and other assets	2,018	(2,811)
Accounts payable	7,090	(3,086)
Net cash provided by operating activities	<u>266,145</u>	<u>95,589</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,308)	(7,774)
Purchases of investments	(144,994)	(63,223)
Proceeds from sale of investments	134,686	9,219
Proceeds from sale of property and equipment	-	550
Net cash used in investing activities	<u>(30,616)</u>	<u>(61,228)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	235,529	34,361
CASH AND CASH EQUIVALENTS, BEGINNING	<u>191,314</u>	<u>156,953</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 426,843</u>	<u>\$ 191,314</u>

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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, 2006 and 2005, 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, 2006 AND 2005

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, 2006 AND 2005

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, 2006 and December 31, 2005:

	2006	2005
Equity securities	\$ 52,660	\$ 3,695
Equity mutual funds	258,883	144,452
Total investments in marketable securities	<u>\$ 311,543</u>	<u>\$ 148,147</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2006	2005
Building and related improvements	\$ 702,445	\$ 686,666
Office equipment and computers	31,308	28,868
Kitchen equipment and cabinets	26,688	24,598
Playground equipment	53,484	53,484
Vehicles	26,093	26,093
Total cost	840,018	819,709
Less accumulated depreciation	(231,761)	(203,729)
Net property and equipment	<u>\$ 608,257</u>	<u>\$ 615,980</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 \$3,342 and \$3,965 of costs related to this plan during 2006 and 2005, respectively.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2006 AND 2005

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Multicultural center	\$ 131,102	\$ -
Daycare scholarships	-	15,000
Total temporarily restricted net assets	<u>\$ 131,102</u>	<u>\$ 15,000</u>

Permanently restricted net assets consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Endowment fund	<u>\$ 131,095</u>	<u>\$ 131,095</u>

NOTE 9 - RECLASSIFICATIONS

Certain amounts for 2005 have been reclassified to be consistent with the 2006 presentation. These reclassifications did not have a significant effect on the previously reported financial position, activities, changes in net assets or cash flows of the Center.