

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

TABLE OF CONTENTS

Independent Auditors' Report	2
Financial Statements as of December 31, 2005 and 2004 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, 2005 and 2004, 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, 2005 and 2004, 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, 2006

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 339,461	\$ 234,037
Accounts receivable	196,748	106,581
Prepaid expenses and other assets	14,035	11,224
Total current assets	<u>550,244</u>	<u>351,842</u>
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>615,980</u>	<u>636,129</u>
TOTAL ASSETS	<u>\$ 1,166,224</u>	<u>\$ 987,971</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,466	\$ 6,552
Total current liabilities	<u>3,466</u>	<u>6,552</u>
NET ASSETS:		
Unrestricted net assets:		
Designated by board for building maintenance	64,000	52,000
Invested in property and equipment	615,980	636,129
Undesignated	336,683	240,365
Total unrestricted	<u>1,016,663</u>	<u>928,494</u>
Temporarily restricted	15,000	18,000
Permanently restricted	131,095	34,925
Total net assets	<u>1,162,758</u>	<u>981,419</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,166,224</u>	<u>\$ 987,971</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, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>638,840</u>	<u>15,000</u>	<u>96,170</u>	<u>750,010</u>
Net assets released from restrictions	<u>18,000</u>	<u>(18,000)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>656,840</u>	<u>(3,000)</u>	<u>96,170</u>	<u>750,010</u>
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	<u>568,671</u>	<u>-</u>	<u>-</u>	<u>568,671</u>
CHANGE IN NET ASSETS	88,169	(3,000)	96,170	181,339
NET ASSETS:				
Beginning of year	<u>928,494</u>	<u>18,000</u>	<u>34,925</u>	<u>981,419</u>
End of year	<u>\$ 1,016,663</u>	<u>\$ 15,000</u>	<u>\$ 131,095</u>	<u>\$ 1,162,758</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>
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>
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 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.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Services	Supporting Services		
	Child Development	Management and General	Fund- Raising	Total
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.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 181,339	\$ 53,249
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	26,723	29,379
Loss on disposal of property and equipment	650	-
Net changes in other assets and liabilities:		
Accounts receivable	(90,167)	(35,582)
Prepaid expenses and other assets	(2,811)	(744)
Accounts payable	(3,086)	6,552
Net cash provided by operating activities	<u>112,648</u>	<u>52,854</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,774)	(14,748)
Proceeds from sale of property and equipment	550	-
Net cash used in investing activities	<u>(7,224)</u>	<u>(14,748)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	105,424	38,106
CASH AND CASH EQUIVALENTS, BEGINNING	<u>234,037</u>	<u>195,931</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 339,461</u>	<u>\$ 234,037</u>

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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, 2005 and 2004, 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, 2005 AND 2004

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, 2005 AND 2004

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2005</u>	<u>2004</u>
Building and related improvements	\$ 686,666	\$ 686,666
Office equipment and computers	28,868	21,095
Kitchen equipment and cabinets	24,598	24,598
Playground equipment	53,484	53,484
Vehicles	26,093	29,093
Total cost	<u>819,709</u>	<u>814,936</u>
Less accumulated depreciation	<u>(203,729)</u>	<u>(178,807)</u>
Net property and equipment	<u>\$ 615,980</u>	<u>\$ 636,129</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 \$3,965 and \$3,840 of costs related to this plan during 2005 and 2004, 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, 2005 AND 2004

NOTE 7 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Daycare scholarships	<u>\$ 15,000</u>	<u>\$ 18,000</u>

Permanently restricted net assets consisted of the following at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Endowment fund	<u>\$ 131,095</u>	<u>\$ 34,925</u>