



THE SHELTERING ARMS
FINANCIAL STATEMENTS
DECEMBER 31, 2010
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



THE SHELTERING ARMS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Officers of
The Sheltering Arms:

We have audited the accompanying statement of financial position of The Sheltering Arms (the "Center"), as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2009 financial statements and, in our report dated June 7, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sheltering Arms, as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2011, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements. Also, the accompanying supplementary information, which includes the Schedule of State Awards Expended, as listed in the accompanying table of contents of this report, is presented for purposes of additional analysis as required by the state of Georgia, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Martin, Hays, Apple & Co.

Atlanta, Georgia

June 21, 2011

THE SHELTERING ARMS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 1,979,136	\$ 1,423,951
Investment securities (Note 2)	7,828,451	5,224,489
Accounts receivable (Note 4)	96	54,986
Grants receivable (Note 3)	720,574	434,919
Promises to give, net (Note 4)	712,773	830,402
Prepaid expenses	-	32,846
Land, building and equipment (Note 5)	24,378,576	23,360,093
Bond issue costs	69,699	80,259
TOTAL ASSETS	\$ 35,689,305	\$ 31,441,945
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 579,234	\$ 412,676
Pension liability (Note 7)	224,000	224,000
Deferred revenue	-	12,774
Bonds payable (Note 8)	4,500,000	4,600,000
TOTAL LIABILITIES	5,303,234	5,249,450
 NET ASSETS		
Unrestricted -		
Undesignated	22,557,620	21,010,112
Board designated (Note 10)	1,990,009	726,097
Temporarily restricted (Note 9)	2,908,758	2,532,746
Permanently restricted (Note 9)	2,929,684	1,923,540
TOTAL NET ASSETS	30,386,071	26,192,495
TOTAL LIABILITIES AND NET ASSETS	\$ 35,689,305	\$ 31,441,945

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

THE SHELTERING ARMS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
PUBLIC SUPPORT AND REVENUE					
PUBLIC SUPPORT					
Government grants and fees (Note 11)	\$ 17,741,898	\$ -	\$ -	\$ 17,741,898	\$ 13,775,969
United Way	1,168,881	-	-	1,168,881	1,385,565
Contributions	1,377,770	-	-	1,377,770	485,480
Grants	1,265,853	2,000,000	1,000,000	4,265,853	1,735,787
Net assets released from restrictions - satisfaction of program restrictions (Note 9)	1,623,988	(1,623,988)	-	-	-
TOTAL PUBLIC SUPPORT	23,178,390	376,012	1,000,000	24,554,402	17,382,801
REVENUE					
Parent tuition	4,033,044	-	-	4,033,044	4,655,453
Investment income	301,075	-	6,144	307,219	273,079
Miscellaneous revenue	525,065	-	-	525,065	517,383
Realized and unrealized gain (loss) on investments	644,425	-	-	644,425	201,934
TOTAL REVENUE	5,503,609	-	6,144	5,509,753	5,647,849
TOTAL PUBLIC SUPPORT AND REVENUE	28,681,999	376,012	1,006,144	30,064,155	23,030,650
EXPENSES					
Program services	23,836,710	-	-	23,836,710	20,417,099
Supporting services	2,033,869	-	-	2,033,869	1,787,232
TOTAL EXPENSES	25,870,579	-	-	25,870,579	22,204,331
CHANGE IN NET ASSETS	2,811,420	376,012	1,006,144	4,193,576	826,319
NET ASSETS, AT BEGINNING OF YEAR	21,736,209	2,532,746	1,923,540	26,192,495	25,366,176
NET ASSETS, END OF YEAR	\$ 24,547,629	\$ 2,908,758	\$ 2,929,684	\$ 30,386,071	\$ 26,192,495

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

THE SHELTERING ARMS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

		Supporting Services	Totals	
	Program Services	Management and General	2010	2009
Salaries	14,163,573	991,343	15,154,916	\$ 13,310,667
Fringe benefits	2,400,916	115,303	2,516,219	2,172,543
Postretirement pension cost	95,000	129,000	224,000	224,000
Payroll taxes	1,055,834	77,029	1,132,863	990,240
Total compensation and benefits	17,715,323	1,312,675	19,027,998	16,697,450
Professional fees	257,101	232,417	489,518	532,099
Food and kitchen supplies	844,564	5,008	849,572	771,736
Office and program supplies	741,719	130,430	872,149	584,448
Telephone	235,748	34,245	269,993	320,745
Postage	100	2,745	2,845	9,571
Occupancy	2,482,366	65,299	2,547,665	1,884,254
Transportation costs	145,000	58,665	203,665	114,132
Conferences	278,767	189,095	467,862	350,589
Membership dues	2,558	6,978	9,536	11,720
Subscriptions	1,488	1,496	2,984	2,140
Insurance	289,847	(5,184)	284,663	156,516
Interest expense	53,986	-	53,986	59,064
Bond issue costs amortization	10,560	-	10,560	10,560
Depreciation	777,583	-	777,583	699,307
Total expenses	\$ 23,836,710	\$ 2,033,869	\$ 25,870,579	\$ 22,204,331

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

THE SHELTERING ARMS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,193,576	\$ 826,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	777,583	699,307
Amortization of bond issue cost	10,560	10,560
Net realized and unrealized (gain) loss on investments	(644,425)	(201,934)
(Increase) decrease in assets-		
Promises to give	117,629	186,776
Accounts receivable	54,890	27,527
Grants receivable	(285,563)	177,914
Prepaid expenses	32,846	2,333
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	166,524	(36,390)
Deferred revenue	(12,774)	12,774
Pension liability	-	(4,369)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>4,410,846</u>	<u>1,700,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to land, building and equipment	(1,882,398)	(121,633)
Sale/ purchase of marketable securities, net	(1,873,263)	(273,064)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(3,755,661)</u>	<u>(394,697)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on South Fulton bonds	(100,000)	(100,000)
NET CASH USED BY FINANCING ACTIVITIES	<u>(100,000)</u>	<u>(100,000)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	555,185	1,206,120
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,423,951</u>	<u>217,831</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,979,136</u>	<u>\$ 1,423,951</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	<u>\$ 58,986</u>	<u>\$ 59,064</u>

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

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

a. Nature of Activities

The Sheltering Arms (the "Center") was organized in 1888 and chartered by the State of Georgia. The Center is a nonprofit organization and is dedicated to providing services in the following areas:

- Early childhood care and education – nationally accredited child care, Early and Preschool Head Start, and a Georgia pre-kindergarten program with a combined capacity of 2,374 children through 17 neighborhood centers in 7 metropolitan Atlanta counties, organization served 3,910 children;
- Comprehensive support services for families;
- Professional development through the Georgia Training Institute, a training institute focused on professional development for child care teachers, administrators and staff who work with families;
- Community outreach.

b. Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

c. Basis of Presentation of Financial Statements

The Organization's adheres to FASB ASC Nonprofit Classification of Net Assets topic and the FASB ASC Nonprofit Revenue and Disclosure topic. Under these financial standards, the Organization is required to report 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.

d. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

e. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. The Center places its temporary cash investments with high credit quality financial institutions.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS
(Continued)

f. Promises to Give

Unconditional promises to give are recognized as support to the Center in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises are discounted, using a market discount rate, to present value for collections expected in future years. Accretion of the discount in subsequent years is also recorded as contribution revenue.

g. Bond Issue Costs

Costs incurred to issue the revenue bonds are amortized using the straight-line method over the period of bonds outstanding.

h. Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

i. Donated Services

Members of the Board of Directors and certain officers volunteer services to the Center without compensation. The value of these donated services has not been recorded in the financial statements because a measurable basis for determining the value of these services has not been established.

j. Investment Securities

The Center carries investments in marketable securities at fair value in the statement of financial position. Increases and decreases in market value are reported as unrealized gains or losses in the statement of activities.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS
(Continued)

k. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, unconditional promises to give, investment securities, prepaid expenses, other assets, accounts payable and accrued expenses, approximates fair value because of the short maturity of these financial instruments.

l. Property and Equipment

The Center capitalizes all expenditures for property and equipment in excess of \$5,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method.

m. Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

n. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

o. Income Taxes

The Center is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, no provisions for federal or state income taxes are reflected in the accompanying financial statements.

p. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. INVESTMENTS

Investments are reported on the basis of quoted market prices and consist primarily of money markets and mutual funds. The fair value of investments was as follows at December 31, 2010:

	Fair Value
Money markets	\$ 683,495
Mutual funds	5,642,163
Investment limited partnerships	1,502,793
Total	<u>\$ 7,828,451</u>

The following schedule summarizes investment returns and their classification in the Statement of Activities at December 31, 2010:

	Unrestricted	Permanently Restricted	Total
Dividends/interest	\$ 301,075	\$ 6,444	\$ 307,219
Net realized and unrealized gain	644,425	-	644,425
Total Investment Return	<u>\$ 945,500</u>	<u>\$ 6,444</u>	<u>\$ 951,644</u>

Investment expenses relating to investment revenues, including custodial fees and management fees, amounted to \$8,179 and have been netted in investment revenues in the accompanying Statement of Activities.

3. GRANTS RECEIVABLE

Grants receivable at December 31, 2010 are as follows:

Child and Adult Food Program	\$ 129,968
Goizueta Foundation	50,000
GAP Funding	49,003
Ninth District Opportunity	1,008
Head Start/Early Head Start	478,004
Governor's Office for Children & Families	12,500
Other	91
Total	<u>\$ 720,574</u>

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Martin, Hays, Spilhoe & Co.

Atlanta, Georgia
June 21, 2011

THE SHELTERING ARMS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
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Unrestricted -		
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 35,689,305</u></u>	<u><u>\$ 31,441,945</u></u>

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

THE SHELTERING ARMS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2010</u>	<u>2009</u>
PUBLIC SUPPORT AND REVENUE					
PUBLIC SUPPORT					
Government grants and fees (Note 11)	\$ 17,741,898	\$ -	\$ -	\$ 17,741,898	\$ 13,775,969
United Way	1,168,881	-	-	1,168,881	1,385,565
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Net assets released from restrictions - satisfaction of program restrictions (Note 9)	1,623,988	(1,623,988)	-	-	-
TOTAL PUBLIC SUPPORT	<u>23,178,390</u>	<u>376,012</u>	<u>1,000,000</u>	<u>24,554,402</u>	<u>17,382,801</u>
REVENUE					
Parent tuition	4,033,044	-	-	4,033,044	4,655,453
Investment income	301,075	-	6,144	307,219	273,079
Miscellaneous revenue	525,065	-	-	525,065	517,383
Realized and unrealized gain (loss) on investments	644,425	-	-	644,425	201,934
TOTAL REVENUE	<u>5,503,609</u>	<u>-</u>	<u>6,144</u>	<u>5,509,753</u>	<u>5,647,849</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>28,681,999</u>	<u>376,012</u>	<u>1,006,144</u>	<u>30,064,155</u>	<u>23,030,650</u>
EXPENSES					
Program services	23,836,710	-	-	23,836,710	20,417,099
Supporting services	2,033,869	-	-	2,033,869	1,787,232
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CHANGE IN NET ASSETS	2,811,420	376,012	1,006,144	4,193,576	826,319
NET ASSETS, AT BEGINNING OF YEAR	21,736,209	2,532,746	1,923,540	26,192,495	25,366,176
NET ASSETS, END OF YEAR	<u>\$ 24,547,629</u>	<u>\$ 2,908,758</u>	<u>\$ 2,929,684</u>	<u>\$ 30,386,071</u>	<u>\$ 26,192,495</u>

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

THE SHELTERING ARMS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

		Supporting Services	Totals	
	Program Services	Management and General	2010	2009
Salaries	14,163,573	991,343	15,154,916	\$ 13,310,667
Fringe benefits	2,400,916	115,303	2,516,219	2,172,543
Postretirement pension cost	95,000	129,000	224,000	224,000
Payroll taxes	1,055,834	77,029	1,132,863	990,240
Total compensation and benefits	17,715,323	1,312,675	19,027,998	16,697,450
 Professional fees	 257,101	 232,417	 489,518	 532,099
Food and kitchen supplies	844,564	5,008	849,572	771,736
Office and program supplies	741,719	130,430	872,149	584,448
Telephone	235,748	34,245	269,993	320,745
Postage	100	2,745	2,845	9,571
Occupancy	2,482,366	65,299	2,547,665	1,884,254
Transportation costs	145,000	58,665	203,665	114,132
Conferences	278,767	189,095	467,862	350,589
Membership dues	2,558	6,978	9,536	11,720
Subscriptions	1,488	1,496	2,984	2,140
Insurance	289,847	(5,184)	284,663	156,516
Interest expense	53,986	-	53,986	59,064
Bond issue costs amortization	10,560	-	10,560	10,560
Depreciation	777,583	-	777,583	699,307
Total expenses	\$ 23,836,710	\$ 2,033,869	\$ 25,870,579	\$ 22,204,331

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

THE SHELTERING ARMS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,193,576	\$ 826,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	777,583	699,307
Amortization of bond issue cost	10,560	10,560
Net realized and unrealized (gain) loss on investments	(644,425)	(201,934)
(Increase) decrease in assets-		
Promises to give	117,629	186,776
Accounts receivable	54,890	27,527
Grants receivable	(285,563)	177,914
Prepaid expenses	32,846	2,333
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	166,524	(36,390)
Deferred revenue	(12,774)	12,774
Pension liability	-	(4,369)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>4,410,846</u>	<u>1,700,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to land, building and equipment	(1,882,398)	(121,633)
Sale/ purchase of marketable securities, net	(1,873,263)	(273,064)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(3,755,661)</u>	<u>(394,697)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on South Fulton bonds	(100,000)	(100,000)
NET CASH USED BY FINANCING ACTIVITIES	<u>(100,000)</u>	<u>(100,000)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	555,185	1,206,120
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,423,951</u>	<u>217,831</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,979,136</u>	<u>\$ 1,423,951</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	<u>\$ 58,986</u>	<u>\$ 59,064</u>

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

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

a. Nature of Activities

The Sheltering Arms (the "Center") was organized in 1888 and chartered by the State of Georgia. The Center is a nonprofit organization and is dedicated to providing services in the following areas:

- Early childhood care and education – nationally accredited child care, Early and Preschool Head Start, and a Georgia pre-kindergarten program with a combined capacity of 2,374 children through 17 neighborhood centers in 7 metropolitan Atlanta counties, organization served 3,910 children;
- Comprehensive support services for families;
- Professional development through the Georgia Training Institute, a training institute focused on professional development for child care teachers, administrators and staff who work with families;
- Community outreach.

b. Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

c. Basis of Presentation of Financial Statements

The Organization's adheres to FASB ASC Nonprofit Classification of Net Assets topic and the FASB ASC Nonprofit Revenue and Disclosure topic. Under these financial standards, the Organization is required to report 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.

d. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

e. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. The Center places its temporary cash investments with high credit quality financial institutions.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS
(Continued)

f. Promises to Give

Unconditional promises to give are recognized as support to the Center in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises are discounted, using a market discount rate, to present value for collections expected in future years. Accretion of the discount in subsequent years is also recorded as contribution revenue.

g. Bond Issue Costs

Costs incurred to issue the revenue bonds are amortized using the straight-line method over the period of bonds outstanding.

h. Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

i. Donated Services

Members of the Board of Directors and certain officers volunteer services to the Center without compensation. The value of these donated services has not been recorded in the financial statements because a measurable basis for determining the value of these services has not been established.

j. Investment Securities

The Center carries investments in marketable securities at fair value in the statement of financial position. Increases and decreases in market value are reported as unrealized gains or losses in the statement of activities.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS
(Continued)

k. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, unconditional promises to give, investment securities, prepaid expenses, other assets, accounts payable and accrued expenses, approximates fair value because of the short maturity of these financial instruments.

l. Property and Equipment

The Center capitalizes all expenditures for property and equipment in excess of \$5,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method.

m. Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

n. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

o. Income Taxes

The Center is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, no provisions for federal or state income taxes are reflected in the accompanying financial statements.

p. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. INVESTMENTS

Investments are reported on the basis of quoted market prices and consist primarily of money markets and mutual funds. The fair value of investments was as follows at December 31, 2010:

	<u>Fair Value</u>
Money markets	\$ 683,495
Mutual funds	5,642,163
Investment limited partnerships	1,502,793
Total	<u>\$ 7,828,451</u>

The following schedule summarizes investment returns and their classification in the Statement of Activities at December 31, 2010:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends/interest	\$ 301,075	\$ 6,444	\$ 307,219
Net realized and unrealized gain	644,425	-	644,425
Total Investment Return	<u>\$ 945,500</u>	<u>\$ 6,444</u>	<u>\$ 951,644</u>

Investment expenses relating to investment revenues, including custodial fees and management fees, amounted to \$8,179 and have been netted in investment revenues in the accompanying Statement of Activities.

3. GRANTS RECEIVABLE

Grants receivable at December 31, 2010 are as follows:

Child and Adult Food Program	\$ 129,968
Goizueta Foundation	50,000
GAP Funding	49,003
Ninth District Opportunity	1,008
Head Start/Early Head Start	478,004
Governor's Office for Children & Families	12,500
Other	91
Total	<u>\$ 720,574</u>

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

4. PROMISES TO GIVE

Unconditional promises to give at December 31, 2010 were as follows:

United Way	\$ 586,309
Capital Campaign	<u>126,464</u>
	<u>\$ 712,773</u>
 Promises to give due in less than one year	 \$ 712,773
Less discount to net present value	<u>-</u>
Net unconditional promises to give	<u>\$ 712,773</u>

5. LAND, BUILDING AND EQUIPMENT

Major classes of land, building and equipment consist of the following:

Land	\$ 1,855,473
Buildings	25,402,181
Furniture and equipment	<u>7,832,808</u>
Subtotal	35,090,462
Less: accumulated depreciation	<u>(10,711,886)</u>
Net land, building and equipment	<u>\$ 24,378,576</u>

Land, building and equipment are stated at historical cost. Depreciation is computed over the estimated useful live of the applicable asset category using the straight-line method.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

6. LEASING TRANSACTIONS

As a Lessee:

The Center is committed under leases on three branch facilities having an initial term of more than one year and expiring on various dates through 2025. Aggregate minimum annual rental requirements under these operating leases are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 73,112
2012	52,074
2013	10,000
2014	10,000
2015	10,000
2016 and thereafter	95,000
	<u>\$ 250,186</u>

Total rental expense for 2010 was \$124,123.

As Lessor:

The Center has a cancelable sublease agreement to rent office and classroom space in one of its neighborhood centers. The rent receivable has been designated to retire the bond payable. Future minimum rent under the agreement expiring 2020 are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 92,600
2012	93,526
2013	94,462
2014	95,406
2015	96,360
2016 and thereafter	395,174
	<u>\$ 867,528</u>

7. RETIREMENT PLAN

The Center maintains a Safe Harbor 401(k) Profit-Sharing Plan. The Plan covers all employees who are at least 21 years of age with one or more years of service. The Center's contribution is based on matching 100% of the first 3% and 50% of the succeeding 2% of salary deferral elected by each eligible employee. The Center's contribution was \$230,696 for 2010.

SUPPLEMENTAL RETIREMENT PLAN

On December 19, 2008, the Center established a supplemental executive retirement plan. The purpose of the plan is to make whole three long term employees who were most harmed by the transition from the Defined Benefit Plan to the 401K plan in 2002. It provides each participant a defined benefit upon death, disability or retirement. The plan is intended to be an unfunded arrangement for eligible employees who are part of this select group of management or highly compensated employees of the Agency. Once the obligation is met, the plan will be dissolved.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

7. RETIREMENT PLAN (Continued)

The Center purchases nonparticipating annuity contracts to fund benefit payments to the participant. Currently, there are three participants in the plan. The participants will receive annual payments over 20 years.

During 2010, the Center contributed \$224,000 to the plan to purchase annuities. The Center expects to contribute \$224,000 during the next fiscal year to purchase annuities.

Benefits expected to be paid during the next 10 years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ -
2012	-
2013	547,304
2014	-
2015	-
2016- 2019	1,043,592

8. REVENUE BONDS PAYABLE

The Center arranged for the sale of \$12,000,000 Development Authority of Fulton County (the Issuer) Revenue Bonds (the Sheltering Arms Project), Series 2002 (the Bonds) pursuant to an Indenture of Trust dated as of October 1, 2002, between the Issuer and the Bank of New York Trust Company of Florida (the Trustee). The proceeds were loaned to the Center to finance the acquisition, construction and equipping of four childcare facilities to be located in South Fulton County. The Issuer entered into a loan agreement with the Center dated October 1, 2002. The payment of principal and interest on the bonds is secured by an irrevocable, direct-pay Letter of Credit issued by Bank of America, Atlanta, Georgia (the Credit Facility) to the Trustee.

The current outstanding balance on the bonds payable is \$4,500,000.

The future scheduled maturities of principal are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 100,000
2012	100,000
2013	200,000
2014	200,000
2015	200,000
2016 and Thereafter	3,700,000
Total	<u>\$ 4,500,000</u>

Financial covenants on the letter of credit agreement include minimum debt service coverage and minimum total net assets. Additionally, capital expenditures are limited to a certain level as defined in the credit facility. As of December 31, 2010, the Center was in compliance with the above covenants.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

9. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Capital maintenance & tuition assistance	\$ 2,120,310
Staff training and Georgia Training Institute	300,042
Teacher salaries & staff retention	200,320
Data collection staff	107,500
Scholarships	180,586
	<u>\$ 2,908,758</u>

Permanently restricted net assets are restricted to:

Permanent endowment, with income restricted to operating activities, capital maintenance, and tuition assistance	<u>\$ 2,929,684</u>
--	---------------------

Net assets released from restrictions for the year ended December 31, 2010 are as follows:

Restrictions satisfied by expenditures for	
Capitalized building purchases	\$ 1,202,808
Goizueta scholarship	421,180
Total	<u>\$ 1,623,988</u>

10. BOARD DESIGNATED FUNDS

Board designated net assets are set aside as an endowment for future operations with the following purposes:

Frances McNair Fund	\$ 694
General maintenance/management	228,133
Endowment earnings-building improvements	1,498,652
Non-qualified retirement plan	224,000
Program activities	38,530
Total	<u>\$ 1,990,009</u>

11. ENDOWMENTS

The Center's endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

11. ENDOWMENTS (Continued)

GOVERNING BOARD'S INTERPRETATION OF LAW

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act (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 donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets and maintained as such for appropriation for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA and donors' restrictions on use. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Center and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

INVESTMENT POLICY AND GUIDELINES

The goal for the Endowment's investment pool is to provide a real total return that preserves the purchasing power of the Endowment's assets, while generating an income stream to support the Endowment's activities. The Endowment's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility.

For the long-term, the primary investment objective for the Endowment Pool is to earn a total return (net of portfolio management fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the Endowment's assets and support the defined spending policy. The Endowment will attempt to achieve annual returns equal to or in excess of the U.S. Treasury Bill return plus 5% within prudent levels of risk.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

11. **ENDOWMENTS** (Continued)

SPENDING GUIDELINE

The long-term objective of the spending guideline is to maintain the purchasing power of each Endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current operations. The Investment Committee approves an annual spending rate within a range of three to six percent (3%-6%). The board-approved rate is applied to a three-year average market value to determine each Endowment's distributable earnings.

General Endowment Fund – Spending is to only be disbursed with Board approval for urgent needs for the agency not to exceed investment income earned.

Tuition Assistance Fund – The Grantee will pay out for the designated purposes of the grant an amount each year, which is consistent with the Grantee's spending policy for its endowment funds, which currently treats 4% of the average value of endowments as spendable income.

Building Maintenance Fund – Spending is to be disbursed based on the Capital Replacement Plan, not to exceed investment income earned.

Endowment net asset composition by type of fund as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,908,758	\$ 2,929,684	\$ 5,838,442
Board-designated endowment funds	1,990,009	-	-	1,990,009
Total endowment funds	<u>\$ 1,990,009</u>	<u>\$ 2,908,758</u>	<u>\$ 2,929,684</u>	<u>\$ 7,828,451</u>

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 768,203	\$ 2,532,746	\$ 1,923,540	\$ 5,224,489
Contributions	366,000	2,000,000	1,000,000	3,366,000
Investment income	301,075	-	6,144	307,219
Net appreciation	644,425	-	-	644,425
Amounts appropriated for expenditure	<u>(89,694)</u>	<u>(1,623,988)</u>	<u>-</u>	<u>(1,713,682)</u>
Endowment net assets, end of year	<u>\$ 1,990,009</u>	<u>\$ 2,908,758</u>	<u>\$ 2,929,684</u>	<u>\$ 7,828,451</u>

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

12. GOVERNMENT GRANTS AND FEES

The Center derives its grants and fees from the following governmental agencies.

Head Start and Early Head Start Programs	\$ 10,674,539
Bright From The Start: DECAL (Pre-K program)	3,720,651
Bright From The Start: DECAL (Food program)	1,897,991
Ninth District Opportunity	226,980
Fulton County	87,000
FRESH Grant	65,500
DFCS	1,025,141
Other	44,096
Total	<u>\$ 17,741,898</u>

13. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash accounts and short-term investments in financial institutions. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash.

Also, the Center maintains balances in a securities account. The account contains cash and securities. Securities Investor Protection Corporation insures balances up to \$500,000 (with a limit of \$100,000 for cash).

14. FAIR VALUE MEASUREMENTS

Effective January 1, 2009, the Organization adopted FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, for recurring fair value measurements. The topic provides a single definition of fair value and requires enhanced disclosures about assets and liabilities measured at fair value. The topic establishes a hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value. The three levels defined by the topic and examples of each level are as follows:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access at the measurement date. The Organization's financial instruments categorized as Level 1 relate to cash equivalents and investment securities.

Level 2 – Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 – Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of financial instruments.

THE SHELTERING ARMS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

15. FAIR VALUE MEASUREMENTS (Continued)

Fair value of assets measured on a recurring basis at December 31, 2010 was as following:

Description	Fair Value	Level 1	Level 3
Money market	\$ 683,495	\$ 683,495	\$ -
Mutual funds	5,642,163	5,642,163	-
Limited partnerships	1,502,793	-	1,502,793
TOTAL	\$ 7,828,451	\$ 6,325,658	\$ 1,502,793

Fair value of investments included in Level 1 are determined by reference to quoted market prices and other relevant information generated by market transactions.

The table below sets forth a summary of changes in fair value of the Center's Level 3 assets for the year ended December 31, 2010.

	Limited Partnership Interest
Balance, beginning of year	\$ -
Total realized and unrealized gains (losses) included in change in net assets	102,793
Purchases, issuance, and settlements	1,400,000
Balance, end of year	<u>\$ 1,502,793</u>

The Center owns less than a 1% interest in two investment limited partnerships which comprise 100% of Level 3 valued assets. The fair value of the investments are determined based on the latest investee information available provided by the general partners of the partnerships. Transfers in and out of Level 3 are recognized at the end of the year based on the type of the Center's investments and observable inputs.

16. CONTINGENCIES

Grants and bequests often require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since by accepting the gifts and their terms, it has agreed to comply with the provisions thereof.

As discussed in the attached internal control structure reports and compliance reports related to federal awards, the Center complied with requirements applicable to federal award programs in which it participates.

17. SUBSEQUENT EVENTS

Management evaluated activity of the Organization through June 21, 2011 (available date of the Financial Statements) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

THE SHELTERING ARMS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

Federal grantor/ Pass-through grantor/ Program title	Federal CFDA Number	Pass-through Grantor's Number	Grant Expenditures
Major programs:			
<u>U.S. Department of Agriculture</u>			
As administered by the Bright From The Start: DECAL			
Child and Adult Care Food Program	10.558	01-121-04058-00-8	\$ 2,007,860
Subtotal			<u>2,007,860</u>
<u>U.S. Department of Health and Human Services</u>			
Head Start and Early Head Start	93.600	G-04CH4576/10	6,471,419
Head Start and Early Head Start	93.600	G-04CH4576/11	1,060,963
Head Start 2009 ARRA COLA Quality Improvement	93.708	04SE4476/01	324,722
Head Start/Early Head Start FY09 ARRA Expansion	93.708/93.709	04SA4576/01	1,811,203
Head Start FY10 ARRA Expansion	93.708	04SH4579/02	216,211
Early Head Start FY10 ARRA Expansion	93.709	04SA4576/02	212,557
American Recovery & Reinvestment Act - Early Learning Mentor Coaches	93.709	04SU0028/01	49,236
Subtotal			<u>10,146,311</u>
As administered by Ninth District Opportunity			
Head Start	93.600	N/A	142,200
Subtotal			<u>142,200</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed thru the DeKalb County, Georgia Office of			
Community Development	N/A	09-901653	30,940
Subtotal			<u>30,940</u>
Total Federal Awards			<u><u>\$ 12,327,311</u></u>

THE SHELTERING ARMS

NOTES TO THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial awards programs received by the Center. All federal awards received directly from federal agencies, and federal awards passed through other governmental agencies, are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1A to the financial statements.

3. SINGLE AUDIT PERIOD

The accompanying schedule of expenditures of federal awards presents disbursements of the Center's programs for the year ended December 31, 2010.

THE SHELTERING ARMS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2010

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified: yes X no

Significant deficiencies identified: yes X no

Noncompliance material to financial statements noted? yes X none reported

Federal Awards

Internal control over major programs:

Material weakness(es) identified: yes X no

Significant deficiencies identified: yes X none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	U. S. Department of Agriculture – Child and Adult Care Food Program
93.600	U. S. Department of Health and Human Services – Head Start

Dollar threshold used to distinguishing between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk? yes X no

THE SHELTERING ARMS

COMPLIANCE AND INTERNAL CONTROL REPORTS

MARTIN, HARPS, SYPHOE & Co.
CERTIFIED PUBLIC ACCOUNTANTS

167 TRINITY AVENUE
ATLANTA, GEORGIA 30303
(404) 525-3508
FAX (404) 521-3428

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors and Officers of
The Sheltering Arms:

We have audited the financial statements of The Sheltering Arms as of and for the year ended December 31, 2010, and have issued our report thereon dated June 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

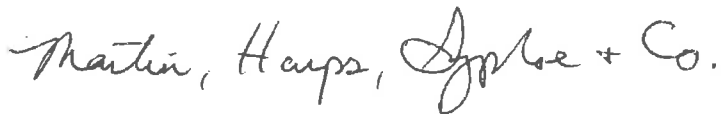
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated June 21, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Atlanta, Georgia
June 21, 2011

MARTIN, HARPS, SYPHOE & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Directors and Officers of
THE SHELTERING ARMS:

Compliance

We have audited The Sheltering Arms' (the "Center") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. The Center's major federal programs identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Martin, Hays, Dykshorn + Co.

Atlanta, Georgia
June 21, 2011

THE SHELTERING ARMS

SUPPLEMENTARY INFORMATION

THE SHELTERING ARMS

SCHEDULE OF STATE AWARDS EXPENDED

FOR THE YEAR ENDED DECEMBER 31, 2010

State Program Name	Contract Number	Contract Award	Receipts	Accrual	Expenditures	Amount Due (To)/From State
Bright From The Start/Georgia Department of Early Care and Learning						
- Resource Coordination Funding 09/10	1201	\$ 2,788,644	\$ 1,542,063	\$ -	\$ 1,542,063	\$ -
- Resource Coordination Funding 10/11	1201	3,009,489	1,262,944	-	1,262,944	-
- Georgia's Pre - K Start-up Grant 09/10	1201	24,000	12,000	-	12,000	-
- Georgia's Pre - K Start-up Grant 09/10	1201	40,000	20,000	-	20,000	-
- Georgia's Pre - K Start-up Grant 09/10	1201	32,000	32,000	-	32,000	-
- Georgia's Pre - K Transition Coach Grant 09/10	1201	720,000	320,000	-	320,000	-
- Child and Adult Care Food Program	4058	1,897,991	1,768,024	129,967	1,897,991	-
- Georgia's Pre - K Parent Café Training	V11SAT1019	5,540	5,540	-	5,540	-
Total		\$ 8,517,664	\$ 4,962,571	\$ 129,967	\$ 5,092,538	\$ -