

THE SHELTERING ARMS

FINANCIAL STATEMENTS

DECEMBER 31, 2009

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

THE SHELTERING ARMS

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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, 2009, 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 2008 financial statements and, in our report dated May 19, 2009, 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, 2009, 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 7, 2010, 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 conducted for the purpose of forming an opinion on the basic financial statements of The Sheltering Arms taken 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 basic 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 Department of Audits and Accounts, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin, Harps, Doyle & Co.

Atlanta, Georgia
June 7, 2010

THE SHELTERING ARMS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 1,423,951	\$ 217,831
Investment securities (Note 2)	5,224,489	4,749,491
Accounts receivable	54,986	82,513
Grants receivable (Note 3)	434,919	612,833
Promises to give, net (Note 4)	830,402	1,017,178
Prepaid expenses	32,846	35,179
Land, building and equipment (Note 5)	23,360,093	23,937,767
Bond issue costs	80,259	90,819
TOTAL ASSETS	\$ 31,441,945	\$ 30,743,611
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 412,676	\$ 449,066
Pension liability (Note 7)	224,000	228,369
Deferred revenue	12,774	-
Bonds payable (Note 8)	4,600,000	4,700,000
TOTAL LIABILITIES	5,249,450	5,377,435
 NET ASSETS		
Unrestricted -		
Undesignated	21,010,112	21,096,379
Board designated (Note 10)	726,097	726,097
Temporarily restricted (Note 9)	2,532,746	1,623,160
Permanently restricted (Note 9)	1,923,540	1,920,540
TOTAL NET ASSETS	26,192,495	25,366,176
TOTAL LIABILITIES AND NET ASSETS	\$ 31,441,945	\$ 30,743,611

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

THE SHELTERING ARMS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009
(With Comparative Totals for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	<u>Totals</u>	
				2009	2008
PUBLIC SUPPORT AND REVENUE					
PUBLIC SUPPORT					
Government grants and fees (Note 11)	\$ 13,775,969	\$ -	\$ -	\$ 13,775,969	\$ 13,242,324
United Way	1,385,565	-	-	1,385,565	1,698,753
Contributions	485,480	-	-	485,480	705,215
Foundation grants	826,201	909,586	-	1,735,787	602,883
Net assets released from restrictions - satisfaction of program restrictions (Note 9)	52,000	-	(52,000)	-	-
TOTAL PUBLIC SUPPORT	16,525,215	909,586	(52,000)	17,382,801	16,249,175
REVENUE					
Parent tuition	4,655,453	-	-	4,655,453	4,911,370
Investment income	218,079	-	55,000	273,079	(123,222)
Miscellaneous revenue	517,383	-	-	517,383	673,805
Unrealized gain (loss) on investments	201,934	-	-	201,934	(1,849,352)
TOTAL REVENUE	5,592,849	-	55,000	5,647,849	3,612,601
TOTAL PUBLIC SUPPORT AND REVENUE	22,118,064	909,586	3,000	23,030,650	19,861,776
EXPENSES					
Program services	20,417,099	-	-	20,417,099	21,135,282
Supporting services	1,787,232	-	-	1,787,232	2,037,616
TOTAL EXPENSES	22,204,331	-	-	22,204,331	23,172,898
CHANGE IN NET ASSETS	(86,267)	909,586	3,000	826,319	(3,311,122)
NET ASSETS, AT BEGINNING OF YEAR	21,822,476	1,623,160	1,920,540	25,366,176	28,677,298
NET ASSETS, END OF YEAR	\$ 21,736,209	\$ 2,532,746	\$ 1,923,540	\$ 26,192,495	\$ 25,366,176

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

THE SHELTERING ARMS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2009

(With Comparative Totals for 2008)

		Supporting Services	Totals	
	Program Services	Management and General	2009	2008
Salaries	12,323,500	987,167	13,310,667	\$ 13,015,800
Fringe benefits	2,063,197	109,346	2,172,543	2,153,976
Other postretirement pension cost	95,000	129,000	224,000	452,369
Payroll taxes	923,215	67,025	990,240	994,352
Total compensation and benefits	15,404,912	1,292,538	16,697,450	16,616,497
Professional fees	386,618	145,481	532,099	714,509
Food and kitchen supplies	771,736	-	771,736	903,833
Office and program supplies	496,310	88,138	584,448	856,776
Telephone	261,711	59,034	320,745	286,520
Postage	427	9,144	9,571	11,934
Occupancy	1,779,760	104,494	1,884,254	1,991,864
Local transportation/maintenance	104,256	9,876	114,132	164,995
Conferences	292,143	58,446	350,589	381,944
Membership dues	7,951	3,769	11,720	9,004
Subscriptions	17	2,123	2,140	995
Insurance	142,327	14,189	156,516	217,726
Interest expense	59,064	-	59,064	150,002
Amortization - bond issue costs	10,560	-	10,560	10,560
Bad debt expense	-	-	-	5,542
Depreciation	699,307	-	699,307	850,197
Total expenses	\$ 20,417,099	\$ 1,787,232	\$ 22,204,331	\$ 23,172,898

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

THE SHELTERING ARMS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 826,319	\$ (3,311,122)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	699,307	850,197
Amortization of bond issue cost	10,560	10,560
Net unrealized (gain) loss on investments	(201,934)	1,849,352
(Increase) decrease in assets-		
Promises to give	186,776	(75,056)
Accounts receivable	27,527	7,010
Grants receivable	177,914	-
Prepaid expenses	2,333	25,636
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	(36,390)	107,890
Deferred revenue	12,774	-
Pension liability	(4,369)	228,369
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,700,817</u>	<u>(307,164)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to land, building and equipment	(121,633)	(87,288)
Sale/ purchase of marketable securities, net	(273,064)	97,012
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(394,697)</u>	<u>9,724</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	1,206,120	(397,440)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	217,831	615,271
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,423,951</u>	<u>\$ 217,831</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	<u>\$ 59,064</u>	<u>\$ 150,002</u>

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

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

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 Center adheres to the provisions of the Statement of Financial Accounting Standards No. 116, *"Accounting for Contributions Received and Contributions Made"* and adheres to the Standards for financial reporting set forth in the Statement of Financial Accounting Standards No. 117, *"Financial Statements of Not-For-Profit Organizations"*.

Under these financial reporting standards, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified as unrestricted, temporarily restricted, and permanently restricted assets.

Unrestricted net assets include amounts that are not subject to donor-imposed stipulations, which are used to account for resources available to carry out the purposes of the Center in accordance with the limitations of its charter and bylaws. The principal sources of unrestricted funds are grants, contributions, and investment income.

Temporarily restricted net assets are those resources currently available for use for program services. They are expendable only for purposes specified by the donor or grantor and may, or will be, met by the actions of the Center and/or the passage of time. Such resources originate from grants and contributions restricted for specific purposes or a specific future timeframe. When a donor or grantor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

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

c. Basis of Presentation of Financial Statements (Continued)

Permanently restricted net assets are those resources whose use by the Center is limited by donor-imposed stipulations that do not expire. Such resources originate from contributions restricted for specific purposes.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate net asset category. Contributions of assets other than cash and cash equivalents are recorded at their estimated fair value at the date of the gift as determined by independent appraisal or other valuation methods as deemed appropriate by management. Contributions to be received after one year are discounted at a rate commensurate with the risk involved.

Amortization of a discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulations purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted 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, 2008, 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, 2009

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 and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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, 2009

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

k. Fair Value of Financial Instruments

The carrying value of cash, 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, 2009

2. INVESTMENTS

Investments are reported on the basis of quoted market prices and consist primarily of mutual funds.

	<u>Cost</u>	<u>Fair Value</u>
Money Market	\$ 12,347	\$ 12,347
Mutual Funds /Common Stock	3,347,790	3,262,750
Mutual Funds - Fixed Income	1,915,028	1,948,392
Total	<u>\$ 5,275,165</u>	<u>\$ 5,224,489</u>

3. GRANTS RECEIVABLE

Accounts receivable at December 31, 2009 are as follows:

Child and Adult Food Program	\$ 129,988
The Center for Working Families	75,545
DFACS Voucher	58,547
GAP Funding	49,003
STG International	40,048
Ninth District Opportunity	19,650
Head Start/Early Head Start	16,344
United Way Smart Start	13,324
CDBG	12,970
Governor's Office for Children & Families	12,500
Cobb County	7,000
Total	<u>\$ 434,919</u>

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

4. PROMISES TO GIVE

Unconditional promises to give at December 31, 2009 were as follows:

United Way	\$ 682,862
Capital Campaign	147,540
	<u>\$ 830,402</u>
Receivables due in less than one year	\$ 830,402
Receivables due in one to five years	<u>-</u>
	830,402
Less discount to net present value	<u>-</u>
Net unconditional promises to give	<u>\$ 830,402</u>

Contributions to be received after one year are discounted to present value at the risk free rate, which was approximately 4.20% at December 31, 2009. Amortization of the discount is recorded as additional revenue and used in accordance with donor-imposed restrictions, if applicable.

5. LAND, BUILDING AND EQUIPMENT

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

Land	\$ 1,855,473
Buildings	24,199,373
Furniture and equipment	7,269,518
Subtotal	<u>33,324,364</u>
Less: accumulated depreciation	<u>(9,964,271)</u>
Net land, building and equipment	<u>\$ 23,360,093</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, 2009

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>
2010	\$ 119,912
2011	73,112
2012	52,074
2013	10,000
2014	10,000
2015 and thereafter	105,000
	<u>\$ 370,098</u>

Total rental expense for 2009 was \$127,511.

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>
2010	\$ 91,684
2011	92,600
2012	93,526
2013	94,462
2014	95,406
2015 and thereafter	491,534
	<u>\$ 959,212</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 \$295,347 for 2009.

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, 2009

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 2009, 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>
2010	\$ -0-
2011	-0-
2012	-0-
2013	547,304
2014	-0-
2015- 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 \$4,600,000.

The future scheduled maturities of principal are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 100,000
2011	100,000
2012	100,000
2013	200,000
2014	200,000
2015 and Thereafter	3,900,000
Total	<u>\$ 4,600,000</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, 2009, the Center was in compliance with the above covenants.

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

9. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Capital maintenance & tuition assistance	\$ 1,323,118
Staff training and Georgia Training Institute	300,042
Teacher salaries & staff retention	479,586
Data collection staff	159,000
Scholarships	271,000
	<u>\$ 2,532,746</u>

Permanently restricted net assets are restricted to:

Permanent endowment, with income restricted to operating activities, capital maintenance, and tuition assistance	<u>\$ 1,923,540</u>
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Net assets released from restrictions for the year ended December 31, 2009 are as follows:

Restrictions satisfied by expenditures for Building maintenance & Goizueta Scholarship	<u>\$ 52,000</u>
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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	375,141
Non-qualified retirement plan	83,599
Program activities	38,530
Total	<u>\$ 726,097</u>

11. GOVERNMENT GRANTS AND FEES

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

Head Start and Early Head Start Programs	\$ 7,794,782
Bright From The Start: DECAL (Pre-K program)	3,029,370
Bright From The Start: DECAL (Food program)	1,682,962
Ninth District Opportunity	222,119
Fulton County	91,500
FRESH Grant	55,000
DFCS	877,352
Other	22,884
Total	<u>\$ 13,775,969</u>

THE SHELTERING ARMS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

12. 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).

13. FAIR VALUE MEASUREMENTS

Effective January 1, 2009, the Center adopted SFAS No. 157, *Fair Value Measurements*, for recurring fair value measurements. SFAS No. 157 provides a single definition of fair value and requires enhanced disclosures about assets and liabilities measured at fair value. SFAS No. 157 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 SFAS No. 157 hierarchy 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, 2009

13. FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at December 31, 2009 were as following:

	<u>Fair Value</u>	<u>Level 1</u>
December 31, 2009		
Money markets	\$ 12,347	\$ 12,347
Mutual funds/common stock	5,212,142	5,212,142
TOTAL	<u>5,224,489</u>	<u>\$ 5,224,489</u>

Fair values of investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

14. 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.

15. SUBSEQUENT EVENTS

Management evaluated activity of the Organization through June 7, 2010 (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

OMB CIRCULAR A-133 REPORTS

THE SHELTERING ARMS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

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	\$ 1,682,962
Subtotal			<u>1,682,962</u>
<u>U.S. Department of Education</u>			
As administered by the United Way of Metro Atlanta, Inc./Smart Start			
Early Reading First	84-359	N/A	139,252
Subtotal			<u>139,252</u>
<u>U.S. Department of Health and Human Services</u>			
Head Start and Early Head Start	93.600	G-04CH4576/09	6,554,037
Head Start and Early Head Start	93.600	G-04CH4576/09	1,014,862
Head Start 2009 ARRA COLA Quality Improvement	93708	04SE4476/01	140,911
Early Head Start FY09 ARRA Expansion	93.600	04SA4576/01	84,972
Subtotal			<u>7,794,782</u>
As administered by Ninth District Opportunity			
Head Start	93.600	N/A	162,028
Subtotal			<u>162,028</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	30,470
Subtotal			<u>30,470</u>
Total Federal Awards			<u><u>\$ 9,809,494</u></u>

THE SHELTERING ARMS

NOTES TO THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009.

THE SHELTERING ARMS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2009

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of The Sheltering Arms.
2. No significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of The Sheltering Arms, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Schedule of Expenditures of Federal Awards.
5. The auditor's report on compliance for the major federal award programs for The Sheltering Arms expresses an unqualified opinion on all major federal programs.
6. No audit findings, which are required to be reported in accordance with Section 510(a) of OMB Circular A-133, are reported in this Schedule.
7. The programs tested as major programs included:
 - a. U.S. Department of Agriculture – Child and Adult Care Food Program - CFDA #10.558
 - b. U. S. Department of Health and Human Services – Head Start - CFDA #93.600
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The Sheltering Arms qualified as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

No findings noted.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings noted.

THE SHELTERING ARMS

COMPLIANCE AND INTERNAL CONTROL REPORTS

MARTIN, HARPS, SYPHOE & Co.
CERTIFIED PUBLIC ACCOUNTANTS

167 TRINITY AVENUE
ATLANTA, GEORGIA 30303
(404) 525-3508
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**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, 2009, and have issued our report thereon dated June 7, 2010. 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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*.

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.

Martin, Hays, Lytle & Co.

Atlanta, Georgia
June 7, 2010

MARTIN, HARPS, SYPHOE & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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ATLANTA, GEORGIA 30303
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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 compliance of The Sheltering Arms (the "Center") 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, 2009. 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, 2009.

**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)

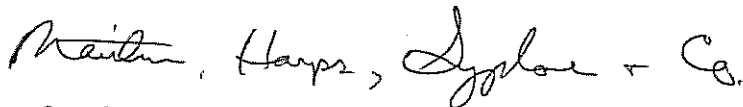
Internal Control Over Compliance

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.



Atlanta, Georgia
June 7, 2010

THE SHELTERING ARMS

SUPPLEMENTARY INFORMATION

THE SHELTERING ARMS

SCHEDULE OF STATE AWARDS EXPENDED

FOR THE YEAR ENDED DECEMBER 31, 2009

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 08/09	NA	\$ 295,275	\$ 147,638	\$ -	\$ 147,638	\$ -
- Resource Coordination Funding 09/10	NA	260,250	130,125	-	130,125	-
- Georgia's Pre - K Program 08/09	1218	2,563,566	1,280,285	-	1,280,285	-
- Georgia's Pre - K Program 09/10	1201	2,788,644	1,394,322	-	1,394,322	-
- 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	-
- Child and Adult Care Food Program	4058	1,948,059	1,552,974	129,988	1,682,962	-
Total		<u>\$ 7,919,794</u>	<u>\$ 4,537,344</u>	<u>\$ 129,988</u>	<u>\$ 4,667,332</u>	<u>\$ -</u>