THE SHELTERING ARMS

FINANCIAL STATEMENTS

DECEMBER 31, 2008

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

THE SHELTERING ARMS

TABLE OF CONTENTS

DECEMBER 31, 2008

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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, 2008, 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 2007 financial statements and, in our report dated May 15, 2008, 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, 2008, 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 May 19,2009, 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, Sizelove & Co.

Atlanta, Georgia
May 19, 2009

THE SHELTERING ARMS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2008
(With Comparative Totals for 2007)

	2008	2007
ASSETS		
Cash and cash equivalents (Note 2)	$ 217,831	$ 615,271
Investment securities (Note 3)	4,749,491	6,724,584
Accounts receivable (Note 4)	695,346	702,356
Promises to give, net (Note 5)	1,017,178	942,122
Prepaid expenses	35,179	60,815
Land, building and equipment (Note 6)	23,937,767	24,671,947
Bond issue costs	90,819	101,380
TOTAL ASSETS	$ 30,743,611	$ 33,818,475
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 449,066	$ 341,177
Accrued other postretirement benefits (Note 8)	228,369	-
Bonds payable (Note 9)	4,700,000	4,800,000
TOTAL LIABILITIES	5,377,435	5,141,177
NET ASSETS		
Unrestricted -		
Undesignated	21,096,379	23,028,609
Board designated (Note 11)	726,097	1,551,159
Temporarily restricted (Note 10)	1,623,160	2,236,983
Permanently restricted (Note 10)	1,920,540	1,860,547
TOTAL NET ASSETS	25,366,176	28,677,298
TOTAL LIABILITIES AND NET ASSETS	$ 30,743,611	$ 33,818,475

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

THE SHELTERING ARMS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008
(With Comparative Totals for 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2008	Totals 2007
PUBLIC SUPPORT AND REVENUE					
PUBLIC SUPPORT					
Government grants and fees (Note 12)	$ 13,242,324	$ -	$ -	$ 13,242,324	$ 12,261,774
United Way	1,698,753	-	-	1,698,753	1,904,054
Contributions	705,215	-	-	705,215	339,574
Foundation grants	602,883	-	-	602,883	661,164
Net assets released from restrictions - satisfaction of program restrictions (Note 10)	613,823	(613,823)	-	-	-
TOTAL PUBLIC SUPPORT	16,862,998	(613,823)	-	16,249,175	15,166,566
REVENUE					
Parent tuition	4,911,370	-	-	4,911,370	5,760,621
Investment income	(123,222)	-	-	(123,222)	344,141
Miscellaneous revenue	673,805	-	-	673,805	418,812
Unrealized loss on investments	(1,909,345)	-	59,993	(1,849,352)	459,745
TOTAL REVENUE	3,552,608	-	59,993	3,612,601	6,983,319
TOTAL PUBLIC SUPPORT AND REVENUE	20,415,606	(613,823)	59,993	19,861,776	22,149,885
EXPENSES					
Program services	21,135,282	-	-	21,135,282	20,837,894
Supporting services	2,037,616	-	-	2,037,616	1,636,408
TOTAL EXPENSES	23,172,898	-	-	23,172,898	22,474,302
CHANGE IN NET ASSETS	(2,757,292)	(613,823)	59,993	(3,311,122)	(324,417)
NET ASSETS, AT BEGINNING OF YEAR	24,579,768	2,236,983	1,860,547	28,677,298	29,001,715
NET ASSETS, END OF YEAR	$ 21,822,476	$ 1,623,160	$ 1,920,540	$ 25,366,176	$ 28,677,298

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

THE SHELTERING ARMS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2008
(With Comparative Totals for 2007)

	Program Services	Supporting Services: Management and General	Totals 2008	Totals 2007
Salaries	12,090,692	925,108	13,015,800	$ 12,699,249
Fringe benefits	2,044,764	109,212	2,153,976	1,974,269
Other postretirement pension costs	95,000	357,369	452,369	-
Payroll taxes	924,792	69,560	994,352	959,548
Total compensation and benefits	15,155,248	1,461,249	16,616,497	15,633,066
Professional fees	545,007	169,502	714,509	656,939
Food and kitchen supplies	903,833	-	903,833	780,907
Office and program supplies	704,514	152,262	856,776	813,659
Telephone	233,546	52,974	286,520	298,833
Postage	2,080	9,854	11,934	15,887
Occupancy	1,901,240	90,624	1,991,864	1,962,838
Local transportation/maintenance	158,498	6,497	164,995	140,884
Conferences	298,192	83,752	381,944	318,718
Professional development/GTI	-	-	-	283,864
Membership dues	2,775	6,229	9,004	8,166
Subscriptions	62	933	995	730
Insurance	213,986	3,740	217,726	406,648
Interest expense	150,002	-	150,002	180,998
Bond issue expense	-	-	-	33,906
Bad debt expense	5,542	-	5,542	1,383
Depreciation & amortization	860,757	-	860,757	936,876
Total expenses	$ 21,135,282	$ 2,037,616	$ 23,172,898	$ 22,474,302

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

THE SHELTERING ARMS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008
(With Comparative Totals for 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,311,122)	$ (324,417)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	850,197	924,204
Amortization of bond issue cost	10,560	12,672
Net unrealized (gain) loss on investments	1,849,352	(459,745)
(Increase) decrease in assets-		
Promises to give	(75,056)	68,268
Provision for uncollectible promises	-	-
Accounts receivable	7,010	(104,015)
Prepaid expenses	25,636	46,034
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	107,890	(46,904)
Postretirement benefits payable	228,369	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(307,164)	116,097
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to land, building and equipment	(87,288)	(130,174)
Sale/ purchase of marketable securities, net	97,012	(761,909)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	9,724	(892,083)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on South Fulton bonds	(100,000)	(100,000)
NET CASH USED BY FINANCING ACTIVITIES	(100,000)	(100,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(397,440)	(875,986)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	615,271	1,491,257
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 217,831	$ 615,271
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 150,002	$ 180,998

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

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 2,300 children through 17 neighborhood centers in 7 metropolitan Atlanta counties, organization served 3,947 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 Account 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.

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, 2007, 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.

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.

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 $1,000. 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.

2. CASH AND CASH EQUIVALENTS

At December 31, 2008, cash and cash equivalents consisted of $23,610 in a bank money market account and the remainder in checking accounts.

3. INVESTMENTS

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

	Cost	Fair Value
Money Market	$ 52,781	$ 52,781
Mutual Funds /Common Stock	3,238,494	2,360,282
Mutual Funds - Fixed Income	2,375,774	2,336,428
Total	$ 5,667,049	$ 4,749,491

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2008 are as follows:

Goizeuta Foundation	$ 150,000
The Center for Working Families	131,322
Child and Adult Food Care Program	123,937
Parent Tuition	87,888
DFACS Voucher	42,176
Special Events	46,190
Ninth District Opportunity	21,320
Bank of America Corporation	10,000
Other	82,513
Total	$ 695,346

5. PROMISES TO GIVE

Unconditional promises to give at December 31, 2008 were as follows:

United Way	$ 911,816
Other projects	110,904
	$ 1,022,720
Receivables due in less than one year	$ 996,465
Receivables due in one to five years	26,255
	1,022,720
Less discount to net present value	(5,542)
Net unconditional promises to give	$ 1,017,178

Contributions to be received after one year are discounted to present value at the risk free rate, which was approximately 4.29% at December 31, 2008. Amortization of the discount is recorded as additional revenue and used in accordance with donor-imposed restrictions, if applicable.

6. LAND, BUILDING AND EQUIPMENT

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

Land	$ 1,855,473
Buildings	24,436,203
Furniture and equipment	6,911,055
Subtotal	33,202,731
Less: accumulated depreciation	(9,264,964)
Net land, building and equipment	$ 23,937,767

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.

7. LEASING TRANSACTIONS

As Lessee:

The Center is committed under leases on two (2) branch facilities having an initial term of more than one year and expiring on various dates. Aggregate minimum annual rental requirements under these operating leases are as follows:

Year	Amount
2009	$ 119,912
2010	119,912
2011	73,112
2012	52,074
2013	10,000
2014 and thereafter	115,000

Total rental expense for 2008 was $115,796.

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 rents under the agreement expiring 2020 are as follows:

Year	Amount
2009	$ 90,776
2010	91,684
2011	92,600
2012	93,526
2013	94,462
2014 and thereafter	586,940

8. RETIREMENT PLAN

On September 18, 2001, the Center converted the defined benefit plan to 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 $271,015 for 2008.

SUPPLEMENTAL RETIREMENT PLAN

On December 19, 2008, the Center established a supplemental executive retirement plan. The purpose of the plan is to attract and retain key employees by providing each participant a defined benefit upon death, disability, retirement or involuntary separation from service. The plan is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Center.

8. RETIREMENT PLAN (Continued)

The Center purchases nonparticipating annuity contracts to fund benefit payments to the participant. Currently, there are four participants in the plan. One participant will be paid a lump sum benefit due to their retirement date occurring before the effective date of the plan. The remaining participants will receive annual payments over 20 years.

During 2008, the Center accrued $228,369 for benefit payments and 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:

Year Ending December 31,	Amount
2009	-0-
2010	-0-
2011	-0-
2012	-0-
2013	40,380
2014 – 2018	278,336

9. 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 $4,700,000.

The future scheduled maturities of principal are as follows:

Year Ending December 31,	Amount
2009	$ 100,000
2010	100,000
2011	100,000
2012	100,000
2013	100,000
2014 and Thereafter	4,200,000
Total	$ 4,700,000

9. REVENUE BONDS PAYABLE (Continued)

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, 2008, the Center was in compliance with the above covenants.

10. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose:

Capital maintenance & tuition assistance	$ 1,323,118
Staff training and Georgia Training Institute	300,042
	$ 1,623,160

Permanently restricted net assets are restricted to:

Permanent endowment, with income restricted to operating activities, capital maintenance, and tuition assistance	$ 1,920,540

Net assets released from restrictions for the year ended December 31, 2008 are as follows:

Restrictions satisfied by expenditures for Building maintenance & Goizueta Scholarship	$ 613,823

11. 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	38,531
Total	$ 726,097

12. GOVERNMENT GRANTS AND FEES

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

Head Start and Early Head Start Programs	$	7,488,728
Bright From The Start: DECAL (FDC program)		102,076
Bright From The Start: DECAL (Pre-K program)		2,874,179
Bright From The Start: DECAL (Food program)		1,559,506
Ninth District Opportunity		187,997
Fulton County		57,000
FRESH Grant		62,500
DFCS		869,444
Other		40,894
Total	$	13,242,324

13. CONCENTRATION OF CREDIT RISK

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. EFFECT OF CURRENT ECONOMIC CONDITIONS AND CONTRIBUTIONS

The Center depends heavily on contributions and grants for its revenue. The ability of certain Center contributors and grantors to continue giving amounts comparable with prior years may be dependent upon current and future overall economic conditions. While the Center's Board of Directors believes the organization has the resources to continue its programs, its ability to do so and the extent to which it continues, may be dependent on the above factors.

15. RELATED PARTY TRANSACTIONS

In compliance with Federal Laws, the Center's contracted insurance companies disclosed to the Center all commissions paid for the year. The Center was therefore notified that, a then current board member was paid for brokering the Center's benefits. The former board member had previously stated that he was not receiving any benefit from the Center's transactions. As soon as the Center was made aware of the compensation, the board member was asked to leave the board. The total amount of commissions received by the board member in 2008 was $28,999. The commissions were computed and paid by the contracted insurance companies which provide the benefits.

During the fourth quarter of 2008, the Center hired Northwestern Mutual Benefits to administer and broker insurance services.

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.

THE SHELTERING ARMS

OMB CIRCULAR A-133 REPORTS

THE SHELTERING ARMS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2008

Federal grantor/ Pass-through grantor/ Program title	Federal CFDA Number	Pass-through Grantor's Number	Grant Expenditures
Major programs:			
U.S. Department of Agriculture			
As administered by the Bright From The Start: DECAL			
Child and Adult Care Food Program	10.558	01-121-04058-00-8	$ 1,528,591
Subtotal			1,528,591
U.S. Department of Education			
As administered by the United Way of Metro Atlanta, Inc./Smart Start			
Early Reading First	84-359	N/A	102,851
Subtotal			102,851
U.S. Department of Health and Human Services			
Head Start and Early Head Start	93.600	G-04CH4576/09	6,428,509
Head Start and Early Head Start	93.600	G-04CH4576/10	1,035,000
Subtotal			7,463,509
As administered by Ninth District Opportunity			
Head Start	93.600	N/A	187,997
Subtotal			187,997
As administered by Bright From The Start: DECAL			
Professional Development	93.575	G08RFP003	102,076
Subtotal			102,076
U.S. Department of Housing and Urban Development			
Passed thru the DeKalb County, Georgia Office of Community Development			
Subtotal	N/A	507508	26,083
Total Federal Awards			26,083
			$ 9,411,107

THE SHELTERING ARMS

NOTES TO THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008.

THE SHELTERING ARMS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2008

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
   c. U. S. Department of Health and Human Services – Professional Development - CFDA #93.575

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

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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, 2008, and have issued our report thereon dated May 19, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, Hayes, Sapler & Co.

Atlanta, Georgia
May 19, 2009

MARTIN, HARPS, SYPHOE & CO.
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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, 2008. 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, 2008.

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, 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 control deficiency in the Center's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, Hayes, Snyder & Co.

Atlanta, Georgia
May 19, 2009

THE SHELTERING ARMS

SUPPLEMENTARY INFORMATION

THE SHELTERING ARMS

SCHEDULE OF STATE AWARDS EXPENDED

FOR THE YEAR ENDED DECEMBER 31, 2007

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						
- Head Start Extended - 8/1/07 - 5/31/08	G08RFP0003	$ 90,000	$ 102,076	$ -	$ 102,076	$ -
- Georgia's Pre - K Program 07/08	1225	2,514,511	1,432,389	-	1,432,389	-
- Georgia's Pre - K Program 08/09	1218	2,563,566	1,432,389	-	1,432,389	-
- Child and Adult Care Food Program	4058	1,629,540	1,528,591	123,937	1,652,528	-
- Professional Development - 10/01/07-05/31/08	G08FRA0035	75,000	-	-	75,000	-
Total		$ 6,872,617	$ 4,495,445	$ 123,937	$ 4,694,382	$ -