

THE CHILDREN'S STOREFRONT

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2008

THE CHILDREN'S STOREFRONT

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Independent Auditor's Report

Board of Trustees The Children's Storefront

We have audited the accompanying balance sheet of The Children's Storefront as of June 30, 2008, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of The Children's Storefront's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's June 30, 2007 financial statements and in our report dated March 31, 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Children's Storefront's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 Children's Storefront as of June 30, 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.

Loeb + Troper LLP

January 14, 2009

THE CHILDREN'S STOREFRONT

BALANCE SHEET

JUNE 30, 2008

(With Summarized Financial Information for June 30, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 68,671	\$ 73,312
Investments (Note 3)	1,952,140	1,248,254
Contributions receivable	41,014	11,500
Government services receivable	63,434	67,102
Employee loans receivable (Note 4)	17,899	37,974
Prepaid expenses and other receivables	<u>12,234</u>	<u>10,096</u>
Total current assets	2,155,392	1,448,238
Investments (Note 3)	1,919,351	2,954,266
Fixed assets - net (Note 5)	<u>1,505,311</u>	<u>1,426,980</u>
Total assets	<u>\$ 5,580,054</u>	<u>\$ 5,829,484</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 107,436	\$ 69,894
Accrued salary and related benefits	193,834	147,497
Accrued post-retirement benefits (Note 6)	<u>55,000</u>	<u>55,000</u>
Total current liabilities	356,270	272,391
Accrued post-retirement benefits (Note 6)	<u>355,000</u>	<u>375,000</u>
Total liabilities	<u>711,270</u>	<u>647,391</u>
Net assets (Exhibit B)		
Unrestricted	2,520,156	2,780,184
Temporarily restricted (Note 8)	429,277	437,720
Permanently restricted (Note 8)	<u>1,919,351</u>	<u>1,964,189</u>
Total net assets	<u>4,868,784</u>	<u>5,182,093</u>
Total liabilities and net assets	<u>\$ 5,580,054</u>	<u>\$ 5,829,484</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S STOREFRONT
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (313,309)	\$ 376,017
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	92,206	83,863
Permanently restricted net assets	(64,320)	
Loss on disposal of fixed assets		60,306
Donated equipment	(72,565)	
Net losses (gain) on investments	243,093	(404,179)
Decrease (increase) in assets		
Contributions receivable	(29,514)	37,881
Government services receivables	3,668	(11,300)
Prepaid expenses and other receivables	(2,138)	(9,586)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	37,542	19,843
Accrued salaries and related benefits	46,337	7,210
Accrued post-retirement benefits	(20,000)	(20,000)
Net cash provided (used) by operating activities	<u>(79,000)</u>	<u>140,055</u>
Cash flows from investing activities		
Purchase of investments	(521,064)	(1,187,934)
Proceeds from sale of investments	609,000	1,175,214
Fixed asset acquisitions	(97,972)	(115,985)
Principal payments on loans	20,075	11,910
Net cash provided (used) by investing activities	<u>10,039</u>	<u>(116,795)</u>
Cash flows from financing activities		
Proceeds from permanently restricted contributions	<u>64,320</u>	
Net increase (decrease) in cash and cash equivalents	(4,641)	23,260
Cash and cash equivalents - beginning of year	<u>73,312</u>	<u>50,052</u>
Cash and cash equivalents - end of year	<u>\$ 68,671</u>	<u>\$ 73,312</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S STOREFRONT

EXHIBIT D

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

(With Summarized Financial Information for the Year Ended June 30, 2007)

	Program	Management and General	Fund Raising	Direct Cost of Special Events	2008	2007
Salaries	\$ 1,781,338	\$ 190,636	\$ 259,096		\$ 2,231,070	\$ 1,850,293
Payroll taxes and employee benefits	377,575	42,932	32,702		453,209	453,863
Total salaries and related expenses	2,158,913	233,568	291,798		2,684,279	2,304,156
Occupancy	92,243	2,981	2,739		97,963	80,673
Professional fees (Note 10)	269,746	37,254	76,957		383,957	272,355
Supplies	112,383	2,489	1,803		116,675	69,553
Telephone and Internet charges	45,497	816	749		47,062	34,983
Printing	30,456	1,402	47,510	\$ 15,861	95,229	69,519
Transportation	33,953	261	6,685	2,451	43,350	27,324
Equipment and maintenance	21,703	701	644		23,048	85,330
Insurance	73,581	2,378	2,185		78,144	76,398
Postage	4,736		22,741		27,477	25,605
Staff development	27,382		1,249		28,631	44,831
Event rentals and other expenses	73,354		30,597	269,641	373,592	206,555
Depreciation	86,822	2,806	2,578		92,206	83,863
Food	83,900				83,900	67,195
Scholarships	62,150				62,150	31,864
Bank charges and other fees	4,903	3,644	15,955		24,502	12,864
Community Outreach	2,236				2,236	3,855
Miscellaneous		1,048			1,048	6,027
Investment fees		11,079			11,079	10,994
Total expenses	3,183,958	300,427	504,190	287,953	4,276,528	3,513,944
Less expenses reported net of income		(11,079)			(11,079)	(10,994)
Total expenses reported on Exhibit B	\$ 3,183,958	\$ 289,348	\$ 504,190	\$ 287,953	\$ 4,265,449	\$ 3,502,950

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE CHILDREN'S STOREFRONT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION

The Children's Storefront (the School) located in the Central Harlem neighborhood of New York City was organized in the state of New York in 1966 as a nonprofit organization for the purpose of providing a tuition-free independent education to neighborhood children. The School currently serves approximately 180 children attending pre-school through eighth grade.

The School is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The School is supported primarily by contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Investments - Investments in securities are recorded at fair value, based on quoted market value. Investment income is recorded net of investment fees.

The School invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term based upon the markets' declines and that such changes could materially affect the School's balance sheet.

Fixed assets - Fixed assets are recorded at cost.

Depreciation - Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Building and building improvements	5-39 years
Equipment	3-10 years

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THE CHILDREN'S STOREFRONT**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2008****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily and permanently restricted net assets - Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the School in perpetuity.

Cash and cash equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities when acquired of three months or less.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized 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 Children's Storefront's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

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THE CHILDREN'S STOREFRONT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - INVESTMENTS

Mutual funds	\$ 2,953,224
Money market mutual funds	<u>918,267</u>
	<u>\$ 3,871,491</u>

Investment income consists of:

Interest and dividends	\$ 148,958
Investment losses	(243,093)
Investment fees	<u>(11,079)</u>
	<u>\$ (105,214)</u>

Investment income is segregated into three components: operating, which is based on 5% of the portfolio's balance over the past three years, temporarily restricted and nonoperating.

Operating	\$ 200,530
Temporarily restricted	(2,682)
Nonoperating	<u>(303,062)</u>
	<u>\$ (105,214)</u>

Subsequent Event

Effective September 26, 2008, Wachovia Bank, N.A., as Trustee of the Common Fund for Short Term Investments (the "Short Term Fund"), announced its decision to terminate and liquidate the Short Term Fund. No additional contributions to the Short Term Fund will be accepted. Under the liquidation plan, investors in the Short Term Fund will be allowed to withdraw balances based on their proportional interest in the Short Term Fund as assets mature or are sold.

The Children's Storefront's balances in the Short Term Fund as of June 30, 2008, September 26, 2008 and December 31, 2008 were as follows:

<u>Date</u>	<u>Balance</u>
June 30, 2008	\$ 917,915
September 26, 2008	789,544
December 31, 2008	252,290

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THE CHILDREN'S STOREFRONT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - INVESTMENTS (continued)

The value of the liquidation proceeds received by The Children's Storefront is not expected to vary significantly from the fair value carried by The Children's Storefront's books based on the current net asset value of the Short Term Fund. However, the realization of this value will depend on market conditions including the liquidity of the Short Term Fund's assets during the liquidation period.

NOTE 4 - EMPLOYEE LOANS RECEIVABLE

The School provides loans to its employees. The School provides these loans interest-free and requires the loans to be repaid through payroll deductions over a period not to exceed two years. In addition, the School provided a relocation loan to the current headmaster. The loan bears interest at 4% and is forgivable at a rate of \$16,000 per year contingent on her remaining as the School's headmaster.

NOTE 5 - FIXED ASSETS

Land	\$ 42,920
Building	243,216
Building improvements	2,270,414
Equipment	<u>916,899</u>
	3,473,449
Less accumulated depreciation	<u>(1,968,138)</u>
	<u>\$ 1,505,311</u>

NOTE 6 - ACCRUED POST RETIREMENT BENEFITS

The Board of Trustees granted the founding headmaster a supplemental retirement package. The agreement stipulates that the founding headmaster will receive \$30,000 a year stipend plus up to \$25,000 a year for housing and related expenses annually for his lifetime. A discount rate of 6.5% was assumed in calculating the liability. The plan is unfunded. The obligation is \$410,000 at June 30, 2008.

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THE CHILDREN'S STOREFRONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 - PENSION PLAN

The Children's Storefront has a defined contribution annuity retirement plan which covers substantially all full-time employees. Pension expense under this plan for the year ended June 30, 2008 was \$56,165.

NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Graduate program	\$ 77,588
Library	6,992
Technology	15,249
Building fund	<u>329,448</u>
	<u>\$ 429,277</u>

Permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income for which are available for the following purposes:

Graduate program	\$ 181,658
Operation of the School	<u>1,737,593</u>
	<u>\$ 1,919,251</u>

During 2008 net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors:

Graduate program	\$ 62,150
Library	3,008
Technology	<u>84,751</u>
Total	<u>\$ 149,909</u>

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THE CHILDREN'S STOREFRONT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 9 - RESTATEMENT

In prior years, the School did not record liabilities for accrued salary expense for its faculty staff and accrued post-retirement benefits for its former headmaster. As of June 30, 2006, the unrecorded balance was \$140,287 and \$450,000 respectively. In addition, the School over/understated certain other balance sheet accounts, resulting in the following adjustments:

Understatement of accounts receivable	\$ 35,412
Understatement of cash	5,690
Overstatement of employee loans receivable	16,000
Overstatement of payables	4,257

This resulted in an understatement of the School's 2006 financial statements as follows:

Assets	\$ 25,102
Liabilities	586,030
Revenues	35,412
Expenses	596,340

As a result, the School restated its opening balances to correct the misstatement of \$560,928.

In 2008, the School reviewed its classification of restricted funds from inception through June 30, 2007. As a result, the School restated its opening net assets categorization to correct prior year classifications.

NOTE 10 - IN-KIND DONATIONS

The School received the following in-kind donations:

Equipment	\$ 72,565
Legal fees	<u>59,532</u>
	<u>\$ 132,097</u>