
EDGEWOOD CHILDREN'S CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2008



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Independent Auditors' Report

Board of Directors
Edgewood Children's Center
St. Louis, Missouri

We have audited the accompanying statement of financial position of Edgewood Children's Center (the Center) as of December 31, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Center'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 audits provide 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 Edgewood Children's Center as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

RubinBrown LLP

April 20, 2009

EDGEWOOD CHILDREN'S CENTER

STATEMENT OF FINANCIAL POSITION

	December 31,	
	2008	2007
Assets		
Cash and cash equivalents	\$ 150,454	\$ 326,476
Cash designated for Board endowment	294,892	161,993
Accounts receivable from government agencies (less allowance for uncollectible accounts of \$20,000 in 2008 and 2007 - Note 7)	1,078,802	1,131,138
Pledges receivable (Note 3)	1,050,660	1,190,847
Prepaid expenses	76,309	129,768
Investments (Note 4)	1,731,134	2,407,467
Other assets	16,529	16,275
Property and equipment (Notes 5 and 7)	5,520,522	5,572,399
Assets restricted for endowment (Note 4)	110,151	110,151
Beneficial interest in perpetual trusts (Note 6)	483,287	644,095
Total Assets	\$ 10,512,740	\$ 11,690,609
Liabilities		
Line of credit advances (Note 7)	\$ 1,134,495	\$ 542,551
Mortgage note payable (Note 7)	79,677	—
Accounts payable and accrued expenses	127,399	126,560
Accrued payroll, benefits and vacation	262,400	163,922
Accrued pension benefits (Note 10)	1,764,292	388,458
Total Liabilities	3,368,263	1,221,491
Net Assets (Note 8)		
Unrestricted	5,287,511	8,180,404
Temporarily restricted	1,263,528	1,534,468
Permanently restricted	593,438	754,246
Total Net Assets	7,144,477	10,469,118
Total Liabilities And Net Assets	\$ 10,512,740	\$ 11,690,609

EDGEWOOD CHILDREN'S CENTER

STATEMENT OF ACTIVITIES

	For The Years Ended December 31,							
	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support And Revenues								
General contributions	\$ 874,642	\$ 218,344	\$ —	\$ 1,092,986	\$ 805,435	\$ 611,900	\$ —	\$ 1,417,335
United Way	4,024	755,078	—	759,102	3,073	758,150	—	761,223
Government agency fees	6,603,470	—	—	6,603,470	7,053,487	—	—	7,053,487
Other program revenue	14,749	—	—	14,749	12,722	—	—	12,722
Special events (net of expenses of \$73,617 in 2008 and \$69,117 in 2007 - Note 9)	245,741	—	—	245,741	218,180	—	—	218,180
Other	85,549	—	—	85,549	28,061	—	—	28,061
Net assets released (Note 8):								
Time restrictions	765,229	(765,229)	—	—	716,078	(716,078)	—	—
Program restrictions	479,133	(479,133)	—	—	225,197	(225,197)	—	—
Total Public Support And Revenues	9,072,537	(270,940)	—	8,801,597	9,062,233	428,775	—	9,491,008
Operating Expenses								
Program services	8,737,922	—	—	8,737,922	8,966,744	—	—	8,966,744
Supporting activities	1,254,030	—	—	1,254,030	1,032,599	—	—	1,032,599
Total Operating Expenses	9,991,952	—	—	9,991,952	9,999,343	—	—	9,999,343
Increase (Decrease) In Net Assets From Operations	(919,415)	(270,940)	—	(1,190,355)	(937,110)	428,775	—	(508,335)
Other Changes (Losses)								
Nonoperating investment gains (losses) (Notes 4, 6 and 15)	(585,424)	—	(160,808)	(746,232)	191,049	—	(12,977)	178,072
Pension related changes other than net periodic benefit costs (Note 10)	(1,388,054)	—	—	(1,388,054)	(214,066)	—	—	(214,066)
Increase (Decrease) In Net Assets	(2,892,893)	(270,940)	(160,808)	(3,324,641)	(960,127)	428,775	(12,977)	(544,329)
Net Assets - Beginning Of Year	8,180,404	1,534,468	754,246	10,469,118	9,140,531	1,105,693	767,223	11,013,447
Net Assets - End Of Year	\$ 5,287,511	\$ 1,263,528	\$ 593,438	\$ 7,144,477	\$ 8,180,404	\$ 1,534,468	\$ 754,246	\$ 10,469,118

EDGEWOOD CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2008

	Program Services					Supporting Activities			
	Residential Programs	Day/ Education Programs	Prevention Programs	Case Management	Total	Management And General	Development	Total	Total
Salaries	\$ 1,779,320	\$ 2,169,576	\$ 696,772	\$ 664,932	\$ 5,310,600	\$ 485,994	\$ 313,160	\$ 799,154	\$ 6,109,754
Employee benefits	282,168	391,950	118,424	119,569	912,111	32,715	28,875	61,590	973,701
Payroll taxes	138,217	168,533	54,441	51,652	412,843	37,752	24,326	62,078	474,921
Total Employee Costs	2,199,705	2,730,059	869,637	836,153	6,635,554	556,461	366,361	922,822	7,558,376
Professional fees	47,302	50,519	13,881	55,051	166,753	24,818	11,750	36,568	203,321
Supplies	26,844	50,564	18,106	24,131	119,645	4,687	6,378	11,065	130,710
Telephone	27,109	31,326	20,735	23,773	102,943	1,881	4,231	6,112	109,055
Postage and shipping	1,316	2,692	1,420	1,874	7,302	188	12,404	12,592	19,894
Occupancy	124,907	175,178	26,275	27,184	353,544	57,217	11,034	68,251	421,795
Rent and maintenance equipment	9,655	27,930	5,073	3,095	45,753	5,683	4,790	10,473	56,226
Printing and publications	2,931	5,012	1,128	1,310	10,381	1,440	52,672	54,112	64,493
Travel	37,448	23,688	4,952	5,058	71,146	1,765	1,779	3,544	74,690
Conferences and meetings	4,305	2,692	1,072	526	8,595	12,051	3,849	15,900	24,495
Assistance to individuals	92,952	379,403	1,789	5,357	479,501	—	—	—	479,501
Membership dues	7,228	9,519	2,709	2,823	22,279	1,881	1,395	3,276	25,555
Interest expense	26,118	—	2,697	2,854	31,669	—	—	—	31,669
Local transportation	622	1,072	52,951	77,506	132,151	726	150	876	133,027
Miscellaneous	14,980	18,609	5,436	3,794	42,819	4,591	19,204	23,795	66,614
Insurance	41,266	54,338	16,154	15,267	127,025	1,072	4,694	5,766	132,791
Dues to national organizations	2,257	3,033	863	899	7,052	599	—	599	7,651
Endowment trustee fees	2,069	2,653	780	741	6,243	1,768	—	1,768	8,011
Bad debts	31,013	60,856	—	661	92,530	—	—	—	92,530
Total Expenses Before Depreciation	2,700,027	3,629,143	1,045,658	1,088,057	8,462,885	676,828	500,691	1,177,519	9,640,404
Depreciation	83,136	151,108	19,704	21,089	275,037	63,570	12,941	76,511	351,548
Total Expenses	\$ 2,783,163	\$ 3,780,251	\$ 1,065,362	\$ 1,109,146	\$ 8,737,922	\$ 740,398	\$ 513,632	\$ 1,254,030	\$ 9,991,952

EDGEWOOD CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2007

	Program Services					Supporting Activities			
	Residential Programs	Day/ Education Programs	Prevention Programs	Case Management	Total	Management And General	Development	Total	Total
Salaries	\$ 1,575,736	\$ 2,209,183	\$ 1,099,126	\$ 604,234	\$ 5,488,279	\$ 287,279	\$ 286,003	\$ 573,282	\$ 6,061,561
Employee benefits	279,034	405,995	163,142	100,454	948,625	43,466	23,642	67,108	1,015,733
Payroll taxes	122,588	171,528	85,368	46,805	426,289	22,007	21,875	43,882	470,171
Total Employee Costs	1,977,358	2,786,706	1,347,636	751,493	6,863,193	352,752	331,520	684,272	7,547,465
Professional fees	62,307	62,669	28,842	27,573	181,391	18,163	3,444	21,607	202,998
Supplies	13,650	69,369	10,402	8,072	101,493	28,223	10,556	38,779	140,272
Telephone	20,376	29,463	28,105	16,118	94,062	14,453	4,289	18,742	112,804
Postage and shipping	117	2,379	1,733	1,451	5,680	2,244	8,282	10,526	16,206
Occupancy	156,125	187,214	28,806	25,149	397,294	66,590	15,476	82,066	479,360
Rent and maintenance equipment	17,124	31,953	6,984	4,641	60,702	4,512	4,961	9,473	70,175
Printing and publications	417	397	407	13	1,234	924	35,446	36,370	37,604
Travel	27,501	23,161	7,385	4,438	62,485	9,907	1,934	11,841	74,326
Conferences and meetings	1,688	1,183	479	680	4,030	16,577	2,906	19,483	23,513
Assistance to individuals	111,821	369,226	725	4,159	485,931	—	—	—	485,931
Membership dues	8,209	10,334	4,266	2,477	25,286	1,564	415	1,979	27,265
Interest expense	25,108	11,871	6,694	4,322	47,995	—	—	—	47,995
Local transportation	1,376	1,065	99,998	61,448	163,887	282	123	405	164,292
Miscellaneous	13,143	17,624	9,366	4,542	44,675	3,244	11,163	14,407	59,082
Insurance	36,280	46,074	23,601	11,034	116,989	9,096	3,623	12,719	129,708
Dues to national organizations	1,786	2,242	962	559	5,549	353	—	353	5,902
Trustee fees and taxes	3,624	4,528	2,297	1,050	11,499	2,325	—	2,325	13,824
Bad debts	9,026	—	1,688	—	10,714	—	—	—	10,714
Total Expenses Before Depreciation	2,487,036	3,657,458	1,610,376	929,219	8,684,089	531,209	434,138	965,347	9,649,436
Depreciation	93,261	143,517	27,033	18,844	282,655	54,372	12,880	67,252	349,907
Total Expenses	\$ 2,580,297	\$ 3,800,975	\$ 1,637,409	\$ 948,063	\$ 8,966,744	\$ 585,581	\$ 447,018	\$ 1,032,599	\$ 9,999,343

EDGEWOOD CHILDREN'S CENTER

STATEMENT OF CASH FLOWS

	For The Years Ended December 31,	
	2008	2007
Cash Flows From Operating Activities		
Decrease in net assets	\$ (3,324,641)	\$ (544,329)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	351,548	349,907
Realized and unrealized (gains) losses on investments	665,633	(27,219)
Change in value of beneficial interest in perpetual trusts	160,808	12,977
Pension related changes other than net periodic benefit costs	1,388,054	214,066
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable from government agencies	52,336	(116,148)
(Increase) decrease in pledges receivable	140,187	(287,620)
Decrease in prepaid expenses	53,459	77,941
(Increase) decrease in other assets	(254)	5,356
Increase (decrease) in accounts payable and accrued expenses	839	(100,210)
Increase in accrued payroll, benefits and vacation	98,478	—
Decrease in accrued retirement pay	(12,220)	(22,279)
Net Cash Used In Operating Activities	(425,773)	(437,558)
Cash Flows From Investing Activities		
Purchases of investments	(367,480)	(964,302)
Proceeds from sales of investments	378,180	1,811,748
Building improvements and purchases of property and equipment	(299,671)	(15,848)
Net Cash Provided By (Used In) Investing Activities	(288,971)	831,598
Cash Flows From Financing Activities		
Net borrowings (repayments) on line of credit	591,944	(186,313)
Proceeds from issuance of mortgage note payable	179,677	—
Principal payments on mortgage note payable	(100,000)	(400,000)
Net Cash Provided By (Used In) Financing Activities	671,621	(586,313)
Net Decrease In Cash And Cash Equivalents	(43,123)	(192,273)
Cash And Cash Equivalents - Beginning Of Year	488,469	680,742
Cash And Cash Equivalents - End Of Year	\$ 445,346	\$ 488,469
Supplemental Disclosure Of Cash Flow Information		
Interest paid	\$ 31,669	\$ 47,995

EDGEWOOD CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 And 2007

1. Summary Of Significant Accounting Policies

Basis Of Accounting

The financial statements of Edgewood Children's Center (the Center) have been prepared on the accrual basis of accounting.

Basis Of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted Net Assets represent those net assets that are not subject to donor-imposed stipulations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations that either can be fulfilled or removed by actions of the Center pursuant to those stipulations or expire by the passage of time.

Permanently Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations that must be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on the related investments for general or specific purposes.

Estimates And Assumptions

The Center uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates.

Cash And Cash Equivalents

The Center considers all cash investment instruments with original maturities of three months or less to be cash equivalents. The Center invests its cash investments with financial institutions with strong credit ratings. At times, such investments may be in excess of Federal Deposit Insurance Corporation insurance limits.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollected amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Pledges Receivable

Unconditional pledges receivable are recognized as support in the period in which the pledges are received. Conditional pledges receivable, which depend upon specified future and uncertain events, are recognized as support when the conditions upon which they depend are substantially met. Pledges receivable are reported at the amount management expects to collect on balances outstanding at year end. Management closely monitors outstanding balances and writes off, as of year end, all balances that are determined to be uncollectible.

Investments And Assets Restricted For Endowment

Investments are reported at fair value. Certificates of deposits are reported at cost plus accrued interest which approximates fair value. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market value fluctuations.

The separately managed endowment fund accumulates realized gains and losses on security transactions which are available to meet current expenses to the extent approved by the Board of Directors. Amounts annually available for expenditure are based on the Board of Directors' approved allocation.

Investment income classified as operating revenue consists of interest and dividend income on investments and any gains approved for use in operations. All other realized and unrealized gains or losses are classified as nonoperating activity.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

Fair Values Of Financial Instruments

Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices. The carrying value of all other financial instruments approximates fair value.

The Center's endowment funds include both a donor-restricted endowment fund as well as funds designated by the Board of Directors. As required by FASB Staff Position No. 117-1, assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Center classifies as permanently restricted net assets the original value of donor-restricted gifts.

The Center has adopted investment and spending policies for Board-designated endowment investments that attempt to provide a predictable stream of funding to operations and programs while seeking to maintain the purchasing power of the endowment. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to earn, over time, an average annual total rate of return that meets or exceeds that of a representative benchmark index while not assuming an extreme level of risk.

Property And Equipment

Property and equipment are carried at cost, if purchased, or at fair value, if donated, less accumulated depreciation computed using the straight-line method. The assets are depreciated over the following lives:

Buildings	10 - 50 years
Improvements	10 - 25 years
Vehicles	3 years
Equipment	8 years

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

Revenue Recognition

The Center reports gifts of cash and other assets as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. As permitted under Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-For-Profit Organizations*, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Donated Supplies And Services

Various supplies are donated to the Center. These items generally are recorded as contributions at their fair values as of the date of receipt. Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. A number of volunteers have donated a significant amount of their time to the Center's programs. These donated services have not been recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Program Services

Includes those expenditures of the following divisions that assist the Center in treating children with emotional, behavioral and communication disorders.

Residential Programs

The Residential Programs provide 24-hour care for 40 children and provide assistance to their families as needed.

Day/Special Education Programs

Includes those expenditures needed to provide special educational classes for children in residential and day treatment programs.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

Prevention Programs

The Prevention Programs provide short-term, intensive crisis intervention and family therapy in the home to prevent out of home placement for children.

Case Management

Case Management provides services to facilitate the placement of children after they leave the Residential Programs. In addition, it contracts for Case Management services with other agencies.

Supporting Activities:

Management And General

Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the Center's program strategy, secure proper administrative functioning of the Board of Directors, and manage the financial and budgetary responsibilities of the Center.

Development

Provides the structure necessary to encourage and secure private financial support from corporations, foundations and individuals through various fundraising and special events.

Expense Allocation

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center.

Tax Status

The Center constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

In accordance with Financial Accounting Standards Board Staff Position (FSP) FIN 48-3, the Center has elected to defer implementation of FIN 48, *Accounting for Uncertainty in Income Taxes*, until January 1, 2009. FIN 48 clarifies the accounting for uncertainty in tax positions. FIN 48 requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, transition, and disclosure requirements for uncertain tax positions. The Center's current accounting policy is to evaluate uncertain tax positions, including those related to unrelated business income, using the framework set forth in FAS 5, *Accounting for Contingencies*.

Adoption Of New Accounting Standards

Effective January 1, 2008, the Center adopted Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. See Note 14.

Effective January 1, 2008, the Center adopted Financial Accounting Standards Board (FASB) Staff Position No. 117-1, *Endowments of Not-for Profit Organizations: Net Asset Classification Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*. FASB Statement No. 117-1 expands disclosures related to endowment funds. See Note 15.

Reclassifications

Certain 2007 amounts have been reclassified, where appropriate, to conform to the financial presentation used in 2008.

2. Operations

The Center provides compassionate care and treatment to restore children and strengthen families through intensive therapy, special education, case management and support services. The Center received approximately \$990,000 and \$1,794,000 of its total revenue from the Missouri Division of Social Services for the years ended December 31, 2008 and 2007, respectively.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

3. Pledges Receivable

Unconditional pledges receivable are expected to be collected as follows:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 945,660	\$ 975,847
Between one and five years	105,000	215,000
	<u>\$ 1,050,660</u>	<u>\$ 1,190,847</u>

The United Way of Greater St. Louis, Inc. provides funding for the Center's activities. During 2008, the United Way of Greater St. Louis notified the Center of the amount of funding allocated to the Center for 2009. The Center properly recorded this amount as a pledge receivable and temporarily restricted contribution at December 31, 2008.

4. Investments And Assets Designated And Restricted For Endowment

Investments and assets restricted and Board designated for endowment consist of:

	<u>2008</u>	<u>2007</u>
U.S. Government securities	\$ 557,740	\$ 681,905
Corporate and municipal bonds	77,797	163,875
Certificates of deposit	235,163	89,833
Mutual funds:		
Equity	938,836	1,554,977
Real estate	31,749	27,028
	<u>1,841,285</u>	<u>2,517,618</u>
Less: Assets restricted for permanent endowment	<u>110,151</u>	<u>110,151</u>
	<u>\$ 1,731,134</u>	<u>\$ 2,407,467</u>

Investment returns for the years ended December 31, 2008 and 2007 is comprised of net losses on investments of \$665,633 and net gains on investments of \$27,219, respectively, and interest and dividend income of \$80,209 and \$163,830, respectively. For 2008 and 2007, the Board retained all investment return and losses within the Board-designated endowment fund and has recorded the resulting losses and gains as nonoperating.

Investment expenses amounted to \$8,011 and \$13,824 in 2008 and 2007, respectively.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

5. Property And Equipment

Property and equipment consist of:

	<u>2008</u>	<u>2007</u>
Land	\$ 27,000	\$ 27,000
Buildings	9,129,203	9,129,203
Improvements	820,225	546,469
Vehicles	188,203	188,203
Equipment	519,623	493,708
	<u>10,684,254</u>	<u>10,384,583</u>
Less: Accumulated depreciation	<u>5,163,732</u>	<u>4,812,184</u>
	<u>\$ 5,520,522</u>	<u>\$ 5,572,399</u>

Depreciation expense amounted to \$351,548 in 2008 and \$349,907 in 2007.

6. Beneficial Interest In Perpetual Trusts

Beneficial interest in perpetual trusts consists of unconditional pledges receivable from perpetual trusts created by independent donors, which are not in the possession or control of the Center but are held and administered by independent bank trustees. The Center, along with other specified not-for-profit organizations, is a beneficiary of these trusts. The Center only derives income from these trusts, which is included in "General contributions" on the statement of activities. The principal of each trust is not available to the Center. The Center has recorded the pledges receivable at the Center's share of the current fair market value of the trusts estimated as equivalent to the present value of the future cash flows from the trusts. For the years ended December 31, 2008 and 2007, the Center's share of the decrease in the market value of the trusts was \$160,808 and \$12,977, respectively, which has been included as nonoperating investment gains (losses).

The Center does not have access to any existing markets in which its beneficial interest could be bought or sold. Although its measurement method is based on the fair value of assets held within the trusts, management has classified its interest in beneficial trusts as Level 3 (subject to unobservable inputs) for purposes of disclosure requirements under FAS 157. See Note 14.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

7. Borrowings

Line Of Credit

The Center has an available line of credit of \$2,000,000 due on August 31, 2009. The agreement is secured by accounts receivable, inventory, and equipment and provides for interest on borrowed funds at 2.25% over the Federal Funds rate. The advances on the line were \$1,134,495 and \$542,551 at December 31, 2008 and 2007, respectively.

Mortgage Note Payable

During 2008, the Center entered into a mortgage note payable with available borrowings not to exceed \$527,250, to be used to finance specific construction projects. During 2008, the Center borrowed \$179,677 on this mortgage to finance repairs to the school roof. This mortgage matures on December 31, 2023 and is payable in monthly installments of \$651, including principal and interest at 5.5%. This mortgage is secured by three parcels of land owned by the Center. At December 31, 2008, \$79,677 was outstanding on this mortgage note payable. Future principal payments on the mortgage are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 3,518
2010	3,716
2011	3,926
2012	4,148
2013	4,381
Thereafter	59,988
<u>Total</u>	<u>\$ 79,677</u>

Interest expense totaled \$31,669 and \$47,995 for 2008 and 2007, respectively.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

8. Net Assets

Temporarily restricted net assets are subject to the following donor-imposed time and purpose restrictions:

	<u>2008</u>	<u>2007</u>
Time restrictions	\$ 761,436	\$ 765,229
Purpose restrictions:		
Campus furniture/equipment	2,973	6,506
Campus renovation/improvement	265,000	463,709
Program support/supplies	220,521	279,395
Service awards	900	1,000
Training	3,245	9,245
Tuition reimbursement	9,384	9,384
Other	69	—
	<u>\$ 1,263,528</u>	<u>\$ 1,534,468</u>

At December 31, 2008 and 2007, there was \$289,224 and \$425,618, respectively, of net assets restricted by purpose that were also restricted by time.

Net assets were released from donor restrictions as follows:

	<u>2008</u>	<u>2007</u>
Expiration of time restrictions	\$ 765,229	\$ 716,078
Campus renovation/improvement	198,709	11,316
Program support/supplies	266,945	183,613
Other	13,479	30,268
	<u>\$ 1,244,362</u>	<u>\$ 941,275</u>

Permanently restricted net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Beneficial interest in perpetual trusts (Note 6)	\$ 483,287	\$ 644,095
Endowment fund assets (Notes 4 and 15)	110,151	110,151
	<u>\$ 593,438</u>	<u>\$ 754,246</u>

Unrestricted net assets include \$2,026,026 and \$2,569,460 of Board-designated endowment funds at December 31, 2008 and 2007, respectively (Note 15).

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

9. Special Events

Special events revenue and expenses consist of:

	2008			2007		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Chefs' Night Out	\$ 105,383	\$ 8,783	\$ 96,600	\$ 73,240	\$ 11,047	\$ 62,193
Outside Benefits	13,522	1,791	11,731	19,683	4,752	14,931
Polo Event	17,795	15,595	2,200	23,461	15,441	8,020
In The Vineyard	165,754	38,583	127,171	170,913	37,877	133,036
Cajun Turkey	16,904	8,865	8,039	—	—	—
	<u>\$ 319,358</u>	<u>\$ 73,617</u>	<u>\$ 245,741</u>	<u>\$ 287,297</u>	<u>\$ 69,117</u>	<u>\$ 218,180</u>

10. Pension Plans

The Center has a frozen, defined benefit pension plan, which covers employees who became participants on or before May 1, 2005. Benefits are based on Credited Service and Five-Year Average Compensation, each frozen as of May 2, 2005. All participants were vested by the end of 2006.

The Center's funding policy is to contribute an amount at least equal to the minimum required contribution per applicable regulations. The Center's accrued benefit cost as of December 31, 2008 and 2007 amounts to \$1,764,292 and \$388,458 respectively.

The following represents financial disclosure information for the above plan for the years ended December 31, 2008 and 2007:

Weighted-Average Assumptions Used To Determine Benefit Obligations At December 31

	2008	2007
Discount rate	6.25%	6.25%
Rate of compensation increase	N/A	N/A

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

Information For Pension Plans With An Accumulated Benefit Obligation In Excess Of Plan Assets

	2008	2007
Change In Benefit Obligation		
Net benefit obligation at beginning of year	\$ 5,338,926	\$ 5,017,250
Interest cost	328,435	308,665
Actuarial loss	25,361	170,247
Gross benefits paid	(167,936)	(157,236)
Projected benefit obligation at end of year	5,524,786	5,338,926
Accumulated benefit obligation at end of year	5,524,786	5,338,926
Change In Plan Assets		
Fair value of plan assets at beginning of year	4,950,468	4,819,651
Actual return on plan assets	(1,022,038)	288,053
Gross benefits paid	(167,936)	(157,236)
Fair value of plan assets	3,760,494	4,950,468
Funded status and accrued benefit cost amount recognized at end of year	\$ (1,764,292)	\$ (388,458)

Weighted-Average Assumptions Used To Determine Net Periodic Benefit Cost For Years Ended December 31

	2008	2007
Discount rate	6.25%	6.25%
Expected long-term return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A
Components Of Net Periodic Benefit Cost		
Interest cost	\$ 328,435	\$ 308,665
Expected return on plan assets	(340,655)	(331,872)
Total Net Periodic Benefit Cost (FAS 87 Cost)	\$ (12,220)	\$ (23,207)

During 2008 and 2007, as required under SFAS No. 158, \$1,388,054 and \$214,066, respectively, of actuarial loss was recognized for the plan as an expense outside of operations.

Measurement Date

Edgewood uses a measurement date of December 31 for its pension plan.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (*Continued*)

Sensitivity To Changes In Assumptions

The table below outlines the sensitivity of Edgewood's pension plan to potential changes in key assumptions:

	Net Periodic Benefit Cost	Benefit Obligation
- 0.25% decrease in discount rate	\$ 9,528	\$ 191,893
- 0.25% decrease in expected return on assets	11,853	N/A

The expected long-term return on plan assets is based upon management's estimation of what a portfolio, with the target allocation shown below, will earn over a long-term horizon.

Plan Assets

The Center's pension plan weighted-average asset allocations at December 31, 2008 and 2007, by asset category, are as follows:

Asset Category	Target Allocation	Plan Assets At December 31,	
		2008	2007
Equity securities	40% - 80%	43%	58%
Fixed investments and cash equivalents	10% - 60%	55%	41%
Real estate	0% - 10%	2%	1%
		100%	100%

The Center has retained a professional manager to help set an investment strategy, recommend individual investment managers and to monitor the results of the portfolio's allocations. As part of this arrangement, the Center meets quarterly with the manager to review portfolio content and results as well as to confirm or modify asset allocation targets.

In establishing an overall investment strategy, the Center's goal is to minimize the investment risk while earning a reasonable return on assets. As part of this, the Center establishes ranges for each of its investment allocation types. The targets are reviewed quarterly with the manager and have been occasionally adjusted as the circumstances warrant.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

Funding Requirements

Per the Center's actuary, the plan will require funding of approximately \$65,000 before June 30, 2009 and additional funding of approximately \$175,000 during 2009.

Estimated Future Benefit Payments

The estimated cash demand on the plan assets for the payment of future benefits is as follows:

<u>Year</u>	<u>Pension Benefits</u>
2009	\$ 242,429
2010	276,408
2011	311,466
2012	304,751
2013	310,409
2014-2018	1,652,804

403(b) Plan

Effective on October 31, 2005, the Center established a 403(b) retirement plan covering all employees at least 21 years of age. Elective deferrals are effective immediately, and the Center matches participants' contributions to the plan 100% of the deferral up to 5%, after one year. The Center's contributions to the 403(b) plan amounted to \$133,703 and \$136,198 for 2008 and 2007, respectively.

11. Lease Commitments

At December 31, 2008, the Center was obligated under an operating lease for copier equipment, which expires in June 2010. Approximate future minimum rental commitments at December 31, 2008 are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 17,340
2010	7,225

Rent expense charged against operations amounted to \$19,087 and \$29,046 in 2008 and 2007, respectively.

12. Commitments And Contingencies

The Center is subject to legal claims arising in the normal conduct of its operations. Management does not expect that these matters will have a material adverse effect on its financial position.

13. Related Parties

The Center is one of nine members of the Missouri Alliance for Children and Families, LLC (Alliance), a Missouri nonprofit corporation. All of the members in the Alliance, including the Center, have guaranteed a \$500,000 note payable of the Alliance in proportion to their ownership percentages. At December 31, 2008 and 2007, the Alliance had a \$1 note payable balance (of the \$500,000) and the Center's ownership percentage was approximately 11%. The unaudited balance sheet of the Alliance as of December 31, 2008 reported a member equity balance of approximately \$18,000.

The Center is obligated under a contract with the Missouri Alliance to provide foster care case management services. Under this agreement, the Center receives a monthly payment for its services rendered. In November 2008, the Center and other members of the Alliance (the Agencies) signed a new agreement whereas they would continue to provide foster care case management services as well as share in the profit/loss generated by the foster care contracts. If the foster care contract is profitable for the applicable contract year, the amount of profit will be distributed to the Agencies on a pro rata basis. If the contract generates a loss, the loss will be divided among the Agencies and each Agency shall pay its share of the loss to the Alliance. The Center recorded revenue of \$1,281,321 and \$1,161,439 for services provided to the Alliance in 2008 and 2007, respectively.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

14. Fair Value Measurements

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the year ended December 31, 2008, using quoted prices in active markets (Level 1); significant observable inputs for similar assets (Level 2); and significant unobservable inputs (Level 3):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government securities (Note 4)	\$ 557,740	\$ —	\$ —	\$ 557,740
Corporate and municipal bonds (Note 4)	77,797	—	—	77,797
Mutual funds:				
Equity (Note 4)	938,836	—	—	938,836
Real estate (Note 4)	31,749	—	—	31,749
Beneficial interests in perpetual trusts (Note 6)	—	—	483,287	483,287
Total Assets	\$ 1,606,122	\$ —	\$ 483,287	\$ 2,089,409

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2008:

	<u>Beneficial Interests In Perpetual Trusts</u>
Beginning balance	\$ 644,095
Decrease in value	<u>(160,808)</u>
Ending balance	<u>\$ 483,287</u>

Change in the value of the perpetual trusts is presented separately on the Center's statement of activities for the year ended December 31, 2008. During 2008, there were no changes in the methods and/or assumptions utilized to derive the fair value of the Center's assets.

EDGEWOOD CHILDREN'S CENTER

Notes To Financial Statements (Continued)

15. Endowment Funds

To satisfy its long-term rate of return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation with 50% invested in equity securities, 1% in real estate investments, 45% in fixed income investments, and 5% in cash to achieve its long-term return objectives within prudent risk constraints.

From its Board-designated endowment fund, the Center has a policy of distributing funds as needed to fund operations.

As of December 31, 2008, the Center had the following endowment funds:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 110,151	\$ 110,151
Board-designated endowment funds	2,026,026	—	2,026,026
	<u>\$ 2,026,026</u>	<u>\$ 110,151</u>	<u>\$ 2,136,177</u>

Change in the endowment for the year ended December 31, 2008 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets - beginning of the year	\$ 2,569,460	\$ 110,151	\$ 2,679,611
Investment return:			
Investment income	80,209	—	80,209
Investment expenses	(8,011)	—	(8,011)
Net realized and unrealized losses	(665,633)	—	(665,633)
Total investment return	(593,435)	—	(593,435)
Transfer from unrestricted to board-designated	50,001	—	50,001
Net assets - end of the year	<u>\$ 2,026,026</u>	<u>\$ 110,151</u>	<u>\$ 2,136,177</u>

16. Subsequent Events

In 2009, the Board of Directors and Senior Management implemented a business plan that included the following: a balanced operating budget; a reduction in operating costs; enhanced development efforts; improved working capital management including regular communications with the Center's banks on the Center's cash status to assist in securing the continued availability of the Center's line of credit which is due in August 2009; a reduction in capital spending; the introduction of new revenue streams; and new monitoring systems for financial performance.

In January 2009, the Board of Directors approved the study and due diligence process of a possible merger with another not-for-profit organization to strengthen the continuum of care and increase the efficiency of resources.

In April 2009, the Board of Directors passed a resolution that authorizes the Finance Committee to review the potential financial needs of the Center for debt reduction, operating shortfalls and support of the defined benefit pension plan, and to recommend to the Board the release of funds currently considered as board designated endowment from endowment restrictions (Note 15).