

**VARIETY CHILD LEARNING CENTER**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2009 AND 2008**

**VARIETY CHILD LEARNING CENTER**

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## Independent Auditor's Report

### Board of Trustees Variety Child Learning Center

We have audited the accompanying balance sheet of Variety Child Learning Center as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Variety Child Learning 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 Variety Child Learning 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 Variety Child Learning Center as of June 30, 2009 and 2008, 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.

*Loeb & Troper LLP*

December 3, 2009

## VARIETY CHILD LEARNING CENTER

## BALANCE SHEET

JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,296,774	\$ 1,003,325
Investments - equity securities	868,851	1,237,735
Tuition receivable (net of allowance for doubtful accounts of \$20,000 in 2009 and 2008)	3,814,810	5,585,483
Governmental and other grant receivables	218,702	171,226
Contributions receivable (Note 3)	4,149	9,966
Prepaid expenses	25,159	22,212
Fixed assets - net (Note 4)	3,622,696	3,519,090
Deferred financing costs	16,928	21,345
	<u>10,868,069</u>	<u>11,570,382</u>
Total assets	\$	\$
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 354,506	\$ 534,115
Accrued retirement benefits (Note 9)	239,100	292,148
Line of credit (Note 7)	1,550,000	1,880,000
Mortgage payable (Note 8)	1,904,087	1,954,313
Swap liability (Note 8)	119,818	
	<u>4,167,511</u>	<u>4,660,576</u>
Total liabilities	\$	\$
Net assets (Exhibit B)		
Unrestricted		
Undesignated	6,337,090	6,308,519
Board designated		298,472
	<u>6,337,090</u>	<u>6,606,991</u>
Total unrestricted	\$	\$
Temporarily restricted (Note 6)	363,468	302,815
	<u>6,700,558</u>	<u>6,909,806</u>
Total net assets	\$	\$
Total liabilities and net assets	<u>10,868,069</u>	<u>11,570,382</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER

EXHIBIT B

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support						
Student tuition and fees						
Preschool	\$ 7,141,870			\$ 6,697,118		
School age	2,816,761			2,889,029		
Itinerant services	3,580,528			3,983,491		
Early intervention	986,250			992,029		
Related services	347,661			293,290		
Evaluations	278,816			284,794		
Other fees			\$ 15,151,886			\$ 15,139,751
Grant income			318,349			343,777
Contributions and other support			260,494			262,439
United Way contributions			71,707			107,284
Special event revenues			26,657			31,796
Less cost of special events			155,812			137,041
Net revenue from special events			(54,627)			(42,861)
Interest			83,855			94,180
Net assets released from restriction (Note 6)			35,302			69,209
Total revenues, gains and other support			968,443			1,082,817
			16,916,693			17,131,253
			60,653			(150,205)
			16,977,346			16,981,048
Expenses (Exhibit C)						
Program services						
Education programs			14,866,889			14,810,582
Other programs			677,462			721,502
Total program services			15,544,351			15,532,084
Supporting services						
Management and general			1,274,314			1,269,427
Fund raising			77,786			167,174
Total supporting services			1,352,100			1,436,601
Total expenses			16,896,451			16,968,685
Change in net assets before realized and unrealized losses on investments and swap transaction			20,242			162,568
Realized and unrealized loss on investments			(170,325)			(184,892)
Loss on swap agreement (Note 11)			(119,818)			(119,818)
Change in net assets (Exhibit D)			(269,901)			(22,324)
Net assets - beginning of year			6,606,991			6,629,315
Net assets - end of year (Exhibit A)			\$ 6,337,090			\$ 6,606,991
			\$ 363,468			\$ 302,815
			\$ 6,700,558			\$ 6,909,806

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2009 AND 2008

	2009							
	Program Services			Supporting Services				
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total
Salaries	\$ 11,465,595	\$ 516,531	\$ 11,982,126	\$ 774,319	\$ 41,858		\$ 816,177	\$ 12,798,303
Payroll taxes and employee benefits	1,929,457	83,173	2,012,630	157,982	12,252		170,234	2,182,864
Total salaries and related expenses	13,395,052	599,704	13,994,756	932,301	54,110		986,411	14,981,167
Contracted services	329,513	2,896	332,409	42,200	2,631	\$ 9,125	53,956	386,365
Professional fees				46,155			46,155	46,155
Supplies and equipment	241,170	15,337	256,507	25,331	15,028	12,237	52,596	309,103
Utilities	106,384	6,359	112,743	9,179			9,179	121,922
Telephone	32,302	704	33,006	10,877	500		11,377	44,383
Insurance	95,027	728	95,755	14,148			14,148	109,903
Interest	190,601	2,132	192,733	11,239			11,239	203,972
Repairs and maintenance	89,094	705	89,799	11,981			11,981	101,780
Leased equipment and vehicles	59,090	526	59,616	6,898			6,898	66,514
Facility and equipment rental						28,733	28,733	28,733
Depreciation and amortization	219,201	7,180	226,381	119,656			119,656	346,037
Miscellaneous	109,455	41,191	150,646	44,349	5,517	4,532	54,398	205,044
Total expenses	14,866,889	677,462	15,544,351	1,274,314	77,786	54,627	1,406,727	16,951,078
Less direct costs of special events deducted directly on the statement of activities						(54,627)	(54,627)	(54,627)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 14,866,889	\$ 677,462	\$ 15,544,351	\$ 1,274,314	\$ 77,786	\$ -	\$ 1,352,100	\$ 16,896,451

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STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2009 AND 2008

	2008							
	Program Services			Supporting Services				
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total
Salaries	\$ 11,500,771	\$ 553,748	\$ 12,054,519	\$ 777,374	\$ 124,852		\$ 902,226	\$ 12,956,745
Payroll taxes and employee benefits	1,853,589	85,564	1,939,153	158,680	16,609		175,289	2,114,442
Total salaries and related expenses	13,354,360	639,312	13,993,672	936,054	141,461		1,077,515	15,071,187
Contracted services	310,931	5,066	315,997	43,225	2,713	\$ 2,625	48,563	364,560
Professional fees				47,466			47,466	47,466
Supplies and equipment	194,008	26,856	220,864	31,827	15,517	6,010	53,354	274,218
Utilities	87,274	3,201	90,475	7,624			7,624	98,099
Telephone	26,927	315	27,242	9,437	500		9,937	37,179
Insurance	83,305	2,578	85,883	17,022			17,022	102,905
Interest	267,288	2,021	269,309	8,429			8,429	277,738
Repairs and maintenance	86,996	2,688	89,684	10,021	445		10,466	100,150
Leased equipment and vehicles	55,197	1,666	56,863	5,344	64		5,408	62,271
Facility and equipment rental						29,406	29,406	29,406
Depreciation and amortization	209,587	6,512	216,099	93,276			93,276	309,375
Miscellaneous	134,709	31,287	165,996	59,702	6,474	4,820	70,996	236,992
Total expenses	14,810,582	721,502	15,532,084	1,269,427	167,174	42,861	1,479,462	17,011,546
Less direct costs of special events deducted directly on the statement of activities						(42,861)	(42,861)	(42,861)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 14,810,582	\$ 721,502	\$ 15,532,084	\$ 1,269,427	\$ 167,174	\$ -	\$ 1,436,601	\$ 16,968,685

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## VARIETY CHILD LEARNING CENTER

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (209,248)	\$ (172,529)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Loss on swap agreement	119,818	
Depreciation and amortization	346,037	309,375
Net realized and unrealized losses on investments	170,325	184,892
Decrease (increase) in assets		
Tuition receivable	1,770,673	(1,091,578)
Governmental and other grant receivables	(47,476)	30,070
Contributions receivable	5,817	17,575
Prepaid expenses	(2,947)	4,372
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(179,609)	251,599
Accrued retirement benefits	(53,048)	122,467
Net cash provided (used) by operating activities	<u>1,920,342</u>	<u>(343,757)</u>
Cash flows from investing activities		
Fixed asset acquisitions	(445,226)	(264,282)
Purchase of investments	(454,639)	(714,945)
Proceeds from sale of investments	653,198	889,567
Net cash used by investing activities	<u>(246,667)</u>	<u>(89,660)</u>
Cash flows from financing activities		
Principal payments on line of credit	(330,000)	(120,000)
Principal payments on mortgage payable	(50,226)	(40,394)
Net cash used by financing activities	<u>(380,226)</u>	<u>(160,394)</u>
Net increase (decrease) in cash and cash equivalents	1,293,449	(593,811)
Cash and cash equivalents - beginning of year	<u>1,003,325</u>	<u>1,597,136</u>
Cash and cash equivalents - end of year	<u>\$ 2,296,774</u>	<u>\$ 1,003,325</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 203,972</u>	<u>\$ 277,738</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

**NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION**

Variety Child Learning Center (VCLC), located in Syosset, New York is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. VCLC serves primarily young children with learning, language and behavioral problems and autism, and their families. VCLC also provides training to early childhood professional personnel, and performs programmatic research.

VCLC operated the following programs during the year:

The Education programs provide special education and related services to children from birth to eight years of age, in addition to support services and parent education for their families. The principal support for these services is tuition, fees and grants from the federal, state and local governments.

The Other programs provide additional activities for the students in the areas of socialization, recreation, respite, and educational skills. Support for these programs is from user fees, contributions, and government grants and fees.

**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.

*Cash and cash equivalents* - Cash and cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

*Investments* - Investments are recorded at fair market value.

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. 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, based on changes in market conditions, and that such changes could materially affect the amounts reported in the financial statements.

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## VARIETY CHILD LEARNING CENTER

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fixed assets* - Fixed assets are stated at cost. Individual items with a cost in excess of \$1,000 and an estimated useful life greater than one year are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets.

*Deferred financing costs* - Deferred financing costs are stated at cost and amortized over the life of the bond.

*Temporarily restricted net assets* - Temporarily restricted net assets are those whose use by VCLC has been limited by donors to a specific time period or purpose.

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

*Receivables, allowance and revenue* - VCLC records receivables and revenue when earned based on established rates and units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, VCLC establishes advances from government funders. VCLC has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2009 and 2008. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, as well as current economic conditions, subsequent collections and historical information. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Interest income is not accrued or recorded on accounts receivable.

Revenues for tuition-funded students are recognized on a per diem basis from the first day of a student's enrollment in VCLC. At the beginning of each school year, VCLC is granted a provisional rate for its funded students by The New York State Education Department (SED). This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by VCLC subsequent to year end. It is VCLC's policy to reflect any increase or decrease in the tuition rate based upon this report in its current financial statements.

*Contributions receivable* - Unconditional promises to give that are expected to be collected within one year or future years 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.

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## VARIETY CHILD LEARNING CENTER

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 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.

**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.

**Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)**

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

**Subsequent events** - VCLC has evaluated events occurring between the end of its fiscal year, June 30, 2009, and December 3, 2009, the date the financial statements were available to be issued.

**Fair Value Measurements**

FASB Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that VCLC has the ability to access. Level 2 inputs to the valuation methodology include:

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## VARIETY CHILD LEARNING CENTER

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair Value Measurements (continued)*

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at June 30, 2009.

*Equity securities* - Valued at the closing price reported in the active market on which the individual securities are traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while VCLC believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Equity securities are considered Level 1 under the fair value hierarchy of investments at June 30, 2009 and 2008.

*Fair Value Measurements on a Nonrecurring Basis*

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

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## VARIETY CHILD LEARNING CENTER

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair Value Measurements on a Nonrecurring Basis (continued)*

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As VCLC did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective July 1, 2008 did not have an impact on the financial statements.

## NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

2010            \$ 4,149

## NOTE 4 - FIXED ASSETS

	<u>2009</u>	<u>2008</u>	<u>Estimated Useful Life</u>
Land	\$ 43,300	\$ 43,300	
Building and improvements	6,739,419	6,327,982	5 - 40 years
Furniture and equipment	<u>780,433</u>	<u>770,967</u>	5 - 10 years
	7,563,152	7,142,249	
Accumulated depreciation	<u>(3,940,456)</u>	<u>(3,623,159)</u>	
	<u>\$ 3,622,696</u>	<u>\$ 3,519,090</u>	

## NOTE 5 - RETIREMENT PLAN

VCLC has a noncontributory defined contribution retirement plan covering all eligible employees, as defined in the plan document. Contributions are determined at the discretion of the Board of Trustees. Retirement plan expense under this plan for the years ended June 30, 2009 and 2008 approximated \$343,000 and \$247,000, respectively, and are allocated to employees' accounts in proportion to qualifying compensation, as defined.

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## VARIETY CHILD LEARNING CENTER

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

## NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Building, furniture, and equipment	\$ 204,154	\$ 168,960
Educational, research projects, parent events and training	128,130	90,679
Needy family support	<u>31,184</u>	<u>43,176</u>
	<u>\$ 363,468</u>	<u>\$ 302,815</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:

	<u>2009</u>	<u>2008</u>
Title 1 programs	\$ 616,268	\$ 558,731
Early Childhood Direction Center	169,490	172,915
Legislative initiatives	32,500	37,000
Building, furniture, and equipment		128,578
Educational, research projects, parent events and training	118,328	167,570
Needy family support	<u>31,857</u>	<u>18,023</u>
	<u>\$ 968,443</u>	<u>\$ 1,082,817</u>

## NOTE 7 - LINE OF CREDIT

As of June 30, 2009 and 2008, VCLC has an available line of credit with a financial institution in the amount of \$4,000,000 and \$3,500,000, respectively. As of June 30, 2009, the line of credit bears interest on the outstanding balance at a rate of prime (which at June 30, 2009 was 3.75%) or LIBOR plus 2.25% (which at June 30, 2009 was 2.57%). As of June 30, 2008, the line of credit bears interest on the outstanding balance at a rate of prime plus 0.5% (which at June 30, 2008 was 5.5%) or LIBOR plus 2.25% (which at June 30, 2009 was 4.72%). As of June 30, 2009, the prime rate was used. As of June 30, 2008, the LIBOR rate was used. Drawdowns may be taken under either index. The line of credit agreement is collateralized by the assets of VCLC. The line of credit matures on February 1, 2010.

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VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

**NOTE 8 - MORTGAGE PAYABLE**

The mortgage, held by a financial institution, matures March 2013 and bears interest at 5.65%. Principal and interest payments are payable in monthly installments of approximately \$13,000 through February 2013, with a final payment of approximately \$1,659,900 due March 2013. The collateral is the underlying property.

Required principal payments are as follows:

2010	\$ 57,674
2011	61,074
2012	64,115
2013	<u>1,721,224</u>
	<u>\$ 1,904,087</u>

On May 1, 2008, VCLC entered into an interest rate swap agreement with JPMorgan Chase Bank, N.A. in order to convert the interest rate to a fixed rate of 5.65%. The amount recorded relating to the interest rate swap agreement will fluctuate on an annual basis, and may be a gain or loss, depending upon market interest rates and other factors. The gain or loss will only be realized if the mortgage is paid in full prior to its due date.

**NOTE 9 - ACCRUED HEALTH BENEFITS**

At June 30, 2009, accrued health benefits consist of an accumulated benefit obligation to provide postretirement medical benefits for life to the Chief Executive Officer of VCLC. The benefits are noncontributory and are not to exceed \$6,000 per year (which shall be increased by the Consumer Price Index for all Urban Consumers N.Y. - N.E.N.J.). The obligation is \$49,064 at June 30, 2009.

**NOTE 10 - CONCENTRATION OF CREDIT RISK**

Financial instruments which potentially subject VCLC to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

For the years ended June 30, 2009 and 2008, respectively, VCLC received approximately 67% of its operating revenue from Nassau County. As of June 30, 2009 and 2008, respectively, VCLC has a receivable of approximately 74% and 80% due from Nassau County.

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## VARIETY CHILD LEARNING CENTER

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

## NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by VCLC in estimating the fair value of its financial instruments:

*Cash and cash equivalents* - The carrying amount approximates fair value because the instrument is liquid in nature.

*Investments - equity securities* - Valued at the closing price reported in the active market in which the individual securities are traded.

*Line of credit* - The carrying value approximates fair value because interest rates are market driven.

*Mortgage payable* - The carrying value approximates fair value because interest rates are market driven.

*Swap liability* - The carrying value approximates fair value based on the cost to buy out the option.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 2,296,774	\$ 2,296,774	\$ 1,003,325	\$ 1,003,325
Investments - equity securities	868,851	868,851	1,237,735	1,237,735
Line of credit	1,550,000	1,550,000	1,880,000	1,880,000
Mortgage payable	1,904,807	1,904,087	1,954,313	1,954,313
Swap liability	119,818	119,818		