

FINAL COPY

CHILDREN'S BEACH HOUSE, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(WITH INDEPENDENT AUDITORS' REPORT)



Certified Public Accountants & Advisors
Advancing Tradition

Independent Auditors' Report

Board of Directors
Children's Beach House, Inc.
Wilmington, Delaware

We have audited the accompanying statement of financial position of Children's Beach House, Inc. (the "Organization") as of September 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 Organization's September 30, 2009 financial statements and, in our report dated December 7, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 Children's Beach House, Inc. as of September 30, 2010 and the changes in its net assets, functional expenses, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

December 8, 2010

CHILDREN'S BEACH HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION

| | September 30, | |
|---|---------------------|---------------------|
| | 2010 | 2009 |
| ASSETS | | |
| Cash and cash equivalents | \$ 189,529 | \$ 201,486 |
| Pledges receivable | 6,000 | 2,000 |
| Other receivable | - | 11,823 |
| Prepaid expenses | 24,361 | 34,492 |
| Investments | 5,054,503 | 4,660,664 |
| Property and equipment - net of accumulated depreciation | 4,040,751 | 4,217,153 |
| Total Assets | \$ 9,315,144 | \$ 9,127,618 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 11,090 | \$ 18,045 |
| Accrued expenses | - | 495 |
| Total Liabilities | 11,090 | 18,540 |
| NET ASSETS | | |
| Unrestricted | 8,955,702 | 8,875,824 |
| Temporarily restricted | 72,914 | 165,827 |
| Permanently restricted | 275,438 | 67,427 |
| Total Net Assets | 9,304,054 | 9,109,078 |
| Total Liabilities and Net Assets | \$ 9,315,144 | \$ 9,127,618 |

See accompanying notes

CHILDREN'S BEACH HOUSE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2010 Total | 2009 Total |
|--|----------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | | | |
| Contributions | \$ 875,842 | \$ 49,800 | \$ 101,000 | \$ 1,026,642 | \$ 720,158 |
| Grants | 4,430 | - | - | 4,430 | 15,000 |
| Program revenues, net tuition reimbursements | 39,934 | - | - | 39,934 | 57,790 |
| Special events, net of expenses | 127,971 | 13,430 | - | 141,401 | 106,064 |
| Investment income | 97,220 | 9,698 | - | 106,918 | 149,846 |
| Unrealized gain on investments | 429,776 | - | - | 429,776 | 64,403 |
| Gain (loss) on sale of investments | 31,731 | - | - | 31,731 | (55,462) |
| Net capital loss from Marvin & Palmer | (102,397) | - | - | (102,397) | (322,908) |
| Loss on disposal of assets | - | - | - | - | (439) |
| Proceeds from settlement | - | - | - | - | 322,825 |
| Miscellaneous income | 441 | - | - | 441 | 1,671 |
| Rental income | 2,390 | - | - | 2,390 | 3,750 |
| Net assets released from restrictions | 58,830 | (58,830) | - | - | - |
| Recharacterization of donor restrictions | - | (107,011) | 107,011 | - | - |
| Total revenues, gains and other support | <u>1,566,168</u> | <u>(92,913)</u> | <u>208,011</u> | <u>1,681,266</u> | <u>1,062,698</u> |
| EXPENSES | | | | | |
| Program expenses | | | | | |
| Sandcastles Day Camp Program | - | - | - | - | 219,504 |
| Youth Development Program | 935,168 | - | - | 935,168 | 989,147 |
| Delaware Center for Youth Development | 263,484 | - | - | 263,484 | 165,506 |
| Total program expenses | <u>1,198,652</u> | <u>-</u> | <u>-</u> | <u>1,198,652</u> | <u>1,374,157</u> |
| Support services | | | | | |
| Fundraising | 163,311 | - | - | 163,311 | 199,413 |
| Administrative and general | 124,327 | - | - | 124,327 | 144,141 |
| Total support services | <u>287,638</u> | <u>-</u> | <u>-</u> | <u>287,638</u> | <u>343,554</u> |
| Total expenses | <u>1,486,290</u> | <u>-</u> | <u>-</u> | <u>1,486,290</u> | <u>1,717,711</u> |
| CHANGE IN NET ASSETS | 79,878 | (92,913) | 208,011 | 194,976 | (655,013) |
| NET ASSETS, BEGINNING OF YEAR | <u>8,875,824</u> | <u>165,827</u> | <u>67,427</u> | <u>9,109,078</u> | <u>9,764,091</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 8,955,702</u></u> | <u><u>\$ 72,914</u></u> | <u><u>\$ 275,438</u></u> | <u><u>\$ 9,304,054</u></u> | <u><u>\$ 9,109,078</u></u> |

See accompanying notes

CHILDREN'S BEACH HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Youth | Delaware Center | Fundraising | Administrative | Comparative Totals | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| | Development | for Youth | | and | 2010 | 2009 |
| | Program | Development | | General | | |
| Employee salaries | \$ 422,586 | \$ 91,034 | \$ 91,889 | \$ 49,661 | \$ 655,170 | \$ 703,184 |
| Employee benefits | 86,908 | 40,901 | 17,304 | 12,585 | 157,698 | 181,202 |
| Total salaries and employee benefits | 509,494 | 131,935 | 109,193 | 62,246 | 812,868 | 884,386 |
| Professional services | 84,227 | 6,180 | 2,615 | 24,357 | 117,379 | 113,123 |
| Building restoration | - | - | - | - | - | 142,274 |
| Office supplies | 64,915 | 8,223 | 2,260 | 1,643 | 77,041 | 70,938 |
| Telephone | 9,942 | 4,700 | 1,988 | 1,446 | 18,076 | 19,689 |
| Postage | 3,258 | 1,540 | 652 | 474 | 5,924 | 10,491 |
| Rent expense | 9,990 | 4,722 | 1,998 | 1,453 | 18,163 | 16,811 |
| Utilities | 31,962 | 15,109 | 6,392 | 4,649 | 58,112 | 59,348 |
| Other occupancy expenses | 22,170 | 10,480 | 4,434 | 3,245 | 40,329 | 36,374 |
| Equipment rental and maintenance | 7,512 | 1,082 | 458 | 333 | 9,385 | 11,558 |
| Printing and publications | 4,282 | 1,642 | 695 | 505 | 7,124 | 15,273 |
| Insurance | 33,835 | 13,132 | 5,556 | 4,041 | 56,564 | 58,359 |
| Travel | 39,255 | 12,318 | 5,211 | 3,790 | 60,574 | 58,560 |
| Conferences and meetings | 9,856 | 4,659 | 1,971 | 1,434 | 17,920 | 11,563 |
| Assistance / incidentals | 245 | - | - | - | 245 | 470 |
| Membership dues | 3,193 | - | - | - | 3,193 | 2,513 |
| Awards / grants | - | - | - | - | - | 600 |
| Miscellaneous | 4,011 | 1,897 | 484 | 599 | 6,991 | 7,525 |
| Depreciation | 97,021 | 45,865 | 19,404 | 14,112 | 176,402 | 187,856 |
| Bad Debt | - | - | - | - | - | 10,000 |
| | \$ 935,168 | \$ 263,484 | \$ 163,311 | \$ 124,327 | \$ 1,486,290 | \$ 1,717,711 |

See accompanying notes

CHILDREN'S BEACH HOUSE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | <u>2010</u> | <u>2009</u> |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from contributions and programs | \$ 1,067,006 | \$ 809,478 |
| Cash received from special events | 141,401 | 189,400 |
| Cash received from interest and dividends | 106,918 | 149,846 |
| Miscellaneous income received | 441 | 324,496 |
| Rental income received | 2,390 | 3,750 |
| Cash paid to suppliers and employees | <u>(1,295,384)</u> | <u>(1,752,640)</u> |
| Net cash provided (used) by operating activities | <u>22,772</u> | <u>(275,670)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | - | (37,774) |
| Proceeds from sale of property and equipment | - | 500 |
| Purchase of investments | (294,729) | (81,070) |
| Proceeds from sale of investments | <u>260,000</u> | <u>595,500</u> |
| Net cash provided (used) by investing activities | <u>(34,729)</u> | <u>477,156</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (11,957) | 201,486 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>201,486</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 189,529</u></u> | <u><u>\$ 201,486</u></u> |

CHILDREN'S BEACH HOUSE, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | 2010 | 2009 |
|---|------------------|---------------------|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Change in net assets | \$ 194,976 | \$ (655,013) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 176,402 | 187,856 |
| Bad debt expense | - | 10,000 |
| Loss on disposal of assets | - | 439 |
| Realized loss on investments (including Marvin & Palmer) | 70,666 | 378,370 |
| Unrealized gain on investments | (429,776) | (64,403) |
| (Increase) decrease in: | | |
| Pledges receivable | (4,000) | (2,000) |
| Other receivable | 11,823 | (11,823) |
| Prepaid expenses | 10,131 | (7,677) |
| Decrease in: | | |
| Accounts payable and accrued expenses | (7,450) | (64,570) |
| Cash overdraft | - | (46,849) |
| | (172,204) | 379,343 |
| Net cash provided (used) by operating activities | \$ 22,772 | \$ (275,670) |

See accompanying notes

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Children's Beach House, Inc. (the "Organization") was founded by Lydia Chichester du Pont in Lewes, Delaware to provide means for care and recreation of children with special needs. Their goal is to help children with special needs reach their highest potential as functional members of their families and the community.

Programs

The Organization provides three major programs at its Lewes location:

Sandcastles Day Camp – The Sandcastles Day Camp is a four week enrichment program serving Cape Henlopen School District children ages 4 to 6 who are experiencing difficulties meeting preschool and kindergarten standards. Academic and social skills are fostered as children participate in classroom activities and receive speech and language enrichment lessons through arts and crafts, environmental education, and social skills lessons. During 2010, the Sandcastles Day Camp program was discontinued.

Youth Development Program – The Youth Development Program serves children ages 7 to 18 and seeks to strengthen the time-tested supports that reduce risks and foster resilience in children and youth. The program directs a great deal of time and energy to cultivate and safeguard relationships within the family.

Delaware Center for Youth Development – The Delaware Center for Youth Development serves to promote the best practices of Positive Youth Development. The Center supports children, families, and communities throughout the region by offering staff development and technical assistance to youth-serving organizations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. 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. Actual results could differ from those estimates.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into three classes of net assets: unrestricted, temporarily restricted or permanently restricted.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – resources available to support any operating need of the Organization.

Temporarily restricted net assets – resources contributed by donors subject to use for stipulated purposes or in stipulated future time periods.

Permanently restricted net assets – resources contributed by donors for stipulated purposes to remain in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. 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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Conditional promises to give are not recognized until the condition is met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions (pledges) to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided, if necessary, based on management's judgment including such factors as prior collection history, types of contributions and nature of fundraising activity. No allowance for uncollectible contributions has been recorded as management believes that all contributions receivable are fully collectible.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions with Restrictions Met in the Same Year

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net asset depending on the nature of the restrictions. The Organization also treats restricted investment income in the same manner.

Release of Restrictions on Net Assets for Acquisition of Property and Equipment

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings or equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, except for such investments held within managed investment portfolios.

Accounts Receivable

Accounts receivable are stated at net realizable value. The allowance for uncollectible accounts is periodically reviewed by management and an allowance for doubtful accounts is established at the discretion of the Organization's management. No allowance for doubtful accounts receivable has been recorded as management believes that all accounts receivable are fully collectible.

Investments

Investments are stated at fair value. Investments acquired by gift are recorded at the fair market value on the date the gift was received. Realized and unrealized gains are included as revenue in the statement of activities. Investment transactions are recognized on the settlement date.

Investment income and gains generated in the endowment accounts are reported as increases to the unrestricted restricted balances, unless specifically restricted by the donor, in the reporting period in which the income and gains are recognized. Investment income recognized in the Organization's current operations is generated from invested cash balances, dividends, realized and unrealized gains on investments, and pass-through income from limited partnership interests.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy

In September, 2006, Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (FASB ASC 820-10), which provides enhanced guidance for using fair value to measure assets and liabilities. The Organization adopted the disclosure requirements under FASB ASC 820-10 as of September 30, 2009. FASB ASC 820-10 establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Property and Equipment

Property and equipment are stated at cost. Cost is the purchase price at date of acquisition, if purchased, or the fair value at date of donation, if acquired by gift. Depreciation is computed over the estimated useful lives of property and equipment by the straight-line method.

The annual depreciation rates are based on the following ranges of useful lives:

| | |
|------------------------------------|--------------|
| Automobiles | 5 years |
| Buildings and improvements | 5 – 40 years |
| Furniture, fixtures, and equipment | 3 – 10 years |

The Organization's policy is to capitalize long-lived assets with costs over \$5,000.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The fair value of investments is based on quoted market price. The recorded amounts for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value of those instruments due to their short maturities.

Income Taxes

On March 6, 2010, the Organization received notification that the Internal Revenue Service approved their status as a publicly supported charity under Section 509(a)(2) of the Internal Revenue Code. Accordingly, the Organization is exempt from income tax, except on unrelated business income.

The Organization has adopted the provisions of FASB Interpretation No. 48 (FASB ASC 740-10-50), *Accounting for Uncertainty in Income Taxes*. Management continually evaluates uncertain tax positions and expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, as applicable. Management's evaluation is that there is no additional income tax liability. This evaluation is based on settled and established positions within the Internal Revenue Code and management believes there is no significant uncertainty related to its evaluation.

The Organization's policy is to expense all interest and penalties, if any, as incurred. No amounts of interest or penalties were recognized by the Company during the year ended September 30, 2010 and 2009. No tax years prior to 2007 remain subject to examination by federal jurisdictions.

Prior Year Financial Statements

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 Organization's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

The Organization recognizes donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts were recognized in the financial statements during the years ended September 30, 2010 and 2009 for donated services.

Reclassifications

Certain 2009 amounts have been reclassified to conform to 2010 presentation. These reclassifications had no effect on previously reported net assets or changes in net assets.

Subsequent Events

Management has evaluated subsequent events through December 8, 2010, the date the financial statements were drafted and available to be issued.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 2 – INVESTMENTS

Investments owned by the Organization at September 30, 2010 and 2009 were as follows:

| Classification | Description | September 30, 2010 | | |
|------------------|---|---------------------|---------------------|-------------------------|
| | | Carrying Value | Fair Value | Unrealized Depreciation |
| Endowment | Money Market and Cash | \$ 51,621 | \$ 51,621 | \$ - |
| | Fixed Income Portfolio | 977,980 | 1,117,096 | 139,116 |
| | Marvin & Palmer U.S. Equity, L.P. | 668,704 | 741,200 | 72,496 |
| | Marvin & Palmer Non-U.S., L.P. | 248,107 | 274,200 | 26,093 |
| | Davis NY Venture Fund | 374,907 | 471,508 | 96,601 |
| | Wilmington Multi-Manager International Fund | 249,321 | 271,746 | 22,425 |
| | Ishares EAFE Index Fund | 562,659 | 406,408 | (156,251) |
| | Ishares Emerging Markets Fund | 509,382 | 543,955 | 34,573 |
| | Royce PA Mutual Fund | 144,693 | 126,181 | (18,512) |
| | Wilmington Multi-Manager Real Asset Fund | 927,025 | 760,894 | (166,131) |
| | DCF Endowment Fund | 289,141 | 289,141 | - |
| | | <u>5,003,540</u> | <u>5,053,950</u> | <u>50,410</u> |
| Capital projects | Money Market and Cash | 553 | 553 | - |
| Emergency fund | Money Market and Cash | - | - | - |
| | | <u>\$ 5,004,093</u> | <u>\$ 5,054,503</u> | <u>\$ 50,410</u> |
| Classification | Description | September 30, 2009 | | |
| | | Carrying Value | Market Value | Unrealized Depreciation |
| Endowment | Money Market and Cash | \$ 28,076 | \$ 28,076 | \$ - |
| | Fixed Income Portfolio | 929,737 | 1,031,673 | 101,936 |
| | Marvin & Palmer U.S. Equity, L.P. | 727,667 | 663,500 | (64,167) |
| | Marvin & Palmer Non-U.S., L.P. | 292,484 | 250,600 | (41,884) |
| | Davis NY Venture | 371,777 | 435,933 | 64,156 |
| | Wilmington Multi-Manager International Fund | 245,770 | 245,725 | (45) |
| | Ishares EAFE Index Fund | 562,659 | 404,632 | (158,027) |
| | Ishares Emerging Markets Fund | 509,382 | 472,756 | (36,626) |
| | Royce PA Mutual Fund | 144,693 | 112,546 | (32,147) |
| | Wilmington Multi-Manager Real Asset Fund | 927,025 | 714,462 | (212,563) |
| | DCF Endowment Fund | 163,211 | 163,211 | - |
| | | <u>4,902,481</u> | <u>4,523,114</u> | <u>(379,367)</u> |
| Capital projects | Money Market and Cash | 553 | 553 | - |
| Emergency fund | Money Market and Cash | 136,997 | 136,997 | - |
| | | <u>\$ 5,040,031</u> | <u>\$ 4,660,664</u> | <u>\$ (379,367)</u> |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 3 – FAIR VALUE MEASUREMENTS

The Organization has determined the fair value of certain assets through application of SFAS No. 157, *Fair Value Measurements*. Fair values of assets measured on a recurring basis at September 30, 2010 and September 30, 2009 were as follows:

| <u>September 30, 2010</u> | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|---------------------|---|--|--|
| Money Market and Cash | \$ 52,174 | \$ 52,174 | \$ - | \$ - |
| Fixed Income Portfolio | 1,117,096 | 1,117,096 | - | - |
| Marvin & Palmer U.S. Equity, L.P. | 741,200 | - | 741,200 | - |
| Marvin & Palmer Non-U.S., L.P. | 274,200 | - | 274,200 | - |
| Davis NY Venture Fund | 471,508 | 471,508 | - | - |
| Wilmington Multi-Manager International Fund | 271,746 | 271,746 | - | - |
| Ishares EAFE Index Fund | 406,408 | 406,408 | - | - |
| Ishares Emerging Markets Fund | 543,955 | 543,955 | - | - |
| Royce PA Mutual Fund | 126,181 | 126,181 | - | - |
| Wilmington Multi-Manager Real Asset Fund | 760,894 | 760,894 | - | - |
| DCF Endowment Fund | 289,141 | - | - | 289,141 |
| Total | <u>\$ 5,054,503</u> | <u>\$ 3,749,962</u> | <u>\$ 1,015,400</u> | <u>\$ 289,141</u> |

| <u>September 30, 2009</u> | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|---------------------|---|--|--|
| Money Market and Cash | \$ 165,626 | \$ 165,626 | \$ - | \$ - |
| Fixed Income Portfolio | 1,031,673 | 1,031,673 | - | - |
| Marvin & Palmer U.S. Equity, L.P. | 663,500 | - | 663,500 | - |
| Marvin & Palmer Non-U.S., L.P. | 250,600 | - | 250,600 | - |
| Davis NY Venture Fund | 435,933 | 435,933 | - | - |
| Wilmington Multi-Manager International Fund | 245,725 | 245,725 | - | - |
| Ishares EAFE Index Fund | 404,632 | 404,632 | - | - |
| Ishares Emerging Markets Fund | 472,756 | 472,756 | - | - |
| Royce PA Mutual Fund | 112,546 | 112,546 | - | - |
| Wilmington Multi-Manager Real Asset Fund | 714,462 | 714,462 | - | - |
| DCF Endowment Fund | 163,211 | - | - | 163,211 |
| Total | <u>\$ 4,660,664</u> | <u>\$ 3,583,353</u> | <u>\$ 914,100</u> | <u>\$ 163,211</u> |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

As required by FASB ASC 820-10, investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which the Organization's investments have been classified, management has assessed factors including, but not limited to, price transparency, subscription activity, redemption activity and the existence or absence of certain restrictions. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices for equity securities and net asset values of mutual funds within active markets. Financial assets valued using Level 2 inputs are based on quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly. Financial assets valued using Level 3 inputs are based on unobservable inputs and assumptions and pricing models taking into account such factors as relevant credit information, perceived market movement and sector.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) consisted of the following:

| | DCF Endowment Fund <hr style="border: 0.5px solid black;"/> |
|-------------------------------|--|
| October 01, 2008 | \$ 165,670 |
| Income | 4,048 |
| Realized and unrealized gains | <hr style="border: 0.5px solid black;"/> (6,507) |
| September 30, 2009 | 163,211 |
| Income | 3,456 |
| Realized and unrealized gains | 21,474 |
| Purchases | <hr style="border: 0.5px solid black;"/> 101,000 |
| September 30, 2010 | <hr style="border: 0.5px solid black;"/> \$ 289,141 <hr style="border: 0.5px solid black;"/> |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Pledges receivable represent the present value of unconditional promises to give. The amount of net pledges at September 30, 2010 and 2009, respectively, is to be received as follows:

| | <u>2010</u> | <u>2009</u> |
|--------------------|-----------------|-----------------|
| Less than one year | <u>\$ 6,000</u> | <u>\$ 2,000</u> |

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|---------------------|---------------------|
| Fine art | \$ 1,635 | \$ 1,635 |
| Automobiles | 162,126 | 162,126 |
| Building and improvements | 5,215,032 | 5,215,032 |
| Furniture, fixtures, and equipment | <u>428,374</u> | <u>428,374</u> |
| | 5,807,167 | 5,807,167 |
| Less accumulated depreciation | <u>1,766,416</u> | <u>1,590,014</u> |
| | <u>\$ 4,040,751</u> | <u>\$ 4,217,153</u> |

Depreciation expense was \$176,402 and \$187,856 for the years ended September 30, 2010 and 2009, respectively.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 6 – RETIREMENT PLANS

Money Purchase Plan

The Organization maintained a defined contribution money purchase pension plan covering substantially all eligible employees. The plan is currently funded in accordance with the prescribed contribution formula. In 2010, the Money Purchase Pension Plan was liquidated and no contributions were made during the year to this plan. For the year ended September 30, 2009, the pension contribution was \$35,719.

Effective January 1, 2007, the Plan was amended to reduce the employer funding due to the adoption of the 401(k) Plan. The Organization approved the termination of the Plan effective September 30, 2009.

401(k) Plan

On January 1, 2007, the Organization established a 401(k) defined contribution plan which covers substantially all eligible employees who wish to participate. Participants who elect to participate in the Plan are provided with an employer match. A portion of the employer match is discretionary and is made at the direction of the Board. Contributions made to participants' accounts by the Organization under this Plan totaled \$19,899 and \$24,081 for the years ended September 30, 2010 and 2009, respectively.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 7 – NET ASSETS

Board-designated and restricted net assets consisted of the following:

| | September 30, | |
|--|----------------------|--------------|
| | 2010 | 2009 |
| Unrestricted Net Assets | | |
| Capital Assets - board designated | \$ 4,040,751 | \$ 4,217,153 |
| Emergency funds - board designated | - | 30,000 |
| Building endowment fund - board designated | 4,914,951 | 4,561,244 |
| | \$ 8,955,702 | \$ 8,808,397 |
| Temporarily Restricted Net Assets | | |
| General operations | \$ 63,230 | \$ 58,830 |
| Emergency funds | - | 106,997 |
| Building endowment fund | 9,684 | - |
| | \$ 72,914 | \$ 165,827 |
| Permanently Restricted Net Assets | | |
| Dobbs Grange Memorial Fund | \$ 62,484 | \$ 62,484 |
| Galloway Memorial Fund | 4,943 | 4,943 |
| Building endowment fund | 208,011 | - |
| | \$ 275,438 | \$ 67,427 |

Net assets were released from temporary restrictions for the following purposes during the year ended September 30, 2010:

| | |
|---------------------------------|-----------|
| Expiration of time restrictions | \$ 58,830 |
| Total net assets released | \$ 58,830 |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 8 – ENDOWMENT ASSETS

The Organization's endowment consists of funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, including funds designated by the Board of Trustees to function as endowments. The Board of Trustees of the Organization has interpreted Delaware's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the guidance issued by the Financial Accounting Standards Board as requiring the preservation of the fair value of the original gift as of the date of gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies the following as permanently restricted net assets:

1. the original value of gifts donated to the permanent endowment;
2. the original value of subsequent gifts to the permanent endowment;
3. accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of any donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund;
2. the Organization's mission and purpose supported by the donor-restricted endowment fund;
3. general economic conditions;
4. the possible effect of inflation and deflation;
5. the expected total return from income and the appreciation of investments;
6. the Organization's other resources; and,
7. the investment policies of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 8 – ENDOWMENT ASSETS (CONTINUED)

Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to maintain the level of financial support currently provided while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of at least 8 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization 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 Organization targets a strategic asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year up to 5 percent of the endowment fund's average fair market value over the prior 12 quarters through the third quarter preceding the year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund at September 30, 2010 and 2009 were as follows:

| | September 30, 2010 | | | |
|----------------------------------|---------------------------|-------------------------------|-------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor-restricted Endowment Funds | \$ - | \$ 9,684 | \$ 168,427 | \$ 178,111 |
| Board-designated Endowment Funds | 4,875,839 | - | - | 4,875,839 |
| | <u>\$ 4,875,839</u> | <u>\$ 9,684</u> | <u>\$ 168,427</u> | <u>\$ 5,053,950</u> |
| | | | | |
| | September 30, 2009 | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor-restricted Endowment Funds | \$ - | \$ - | \$ 67,427 | \$ 67,427 |
| Board-designated Endowment Funds | 4,455,687 | - | - | 4,455,687 |
| | <u>\$ 4,455,687</u> | <u>\$ -</u> | <u>\$ 67,427</u> | <u>\$ 4,523,114</u> |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 8 – ENDOWMENT ASSETS (CONTINUED)

Changes in endowment net assets for the years ended September 30, 2010 and 2009 were as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, October 1, 2008 | \$ 5,352,387 | \$ - | \$ - | \$ 5,352,387 |
| Asset reclassification based on change in law | <u>(67,427)</u> | <u>-</u> | <u>67,427</u> | <u>-</u> |
| Endowment assets after reclassification | 5,284,960 | - | 67,427 | 5,352,387 |
| Investment return: | | | | |
| Investment income | 148,973 | - | - | 148,973 |
| Net realized / unrealized loss | <u>(313,967)</u> | <u>-</u> | <u>-</u> | <u>(313,967)</u> |
| Total investment return | 5,119,966 | - | 67,427 | 5,187,393 |
| Contributions transferred into endowment | - | - | - | - |
| Appropriation of assets for expenditure | <u>(664,279)</u> | <u>-</u> | <u>-</u> | <u>(664,279)</u> |
| Endowment net assets, September 30, 2009 | \$ 4,455,687 | \$ - | \$ 67,427 | \$ 4,523,114 |
| Investment return: | | | | |
| Investment income | 97,220 | 9,684 | - | 106,904 |
| Net realized / unrealized (loss) gain | <u>347,357</u> | <u>-</u> | <u>-</u> | <u>347,357</u> |
| Total investment return | 4,900,264 | 9,684 | 67,427 | 4,977,375 |
| Contributions transferred into endowment | 235,575 | - | 101,000 | 336,575 |
| Appropriation of assets for expenditure | <u>(260,000)</u> | <u>-</u> | <u>-</u> | <u>(260,000)</u> |
| Endowment net assets, September 30, 2010 | <u>\$ 4,875,839</u> | <u>\$ 9,684</u> | <u>\$ 168,427</u> | <u>\$ 5,053,950</u> |

Amounts classified as temporarily restricted (endowment assets only) as of September 30 were as follows:

| Temporarily Restricted Net Assets - Endowment Only | <u>2010</u> | <u>2009</u> |
|---|-----------------|-------------|
| Building endowment fund | <u>\$ 9,684</u> | <u>\$ -</u> |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 8 – ENDOWMENT ASSETS (CONTINUED)

Amounts classified as permanently restricted (endowment assets only) as of September 30 were as follows:

| Permanently Restricted Net Assets - Endowment Only | <u>2010</u> | <u>2009</u> |
|---|--------------------------|-------------------------|
| Perpetual endowment funds required to be retained permanently by donor stipulation / UPMIFA | \$ 168,427 | \$ 67,427 |
| Dobbs Grange Memorial Fund | \$ 62,484 | \$ 62,484 |
| Galloway Memorial Fund | 4,943 | 4,943 |
| Building endowment fund | <u>101,000</u> | <u>-</u> |
| | <u><u>\$ 168,427</u></u> | <u><u>\$ 67,427</u></u> |

NOTE 9 – LINE OF CREDIT

In February 2010, the Organization opened a line of credit to have available for operating cash needs. The total amount of the line of credit is \$500,000, and is collateralized by a portion of the Organization's endowment. No amounts were drawn on the line of credit during the year ended September 30, 2010. The interest rate on the line of credit was 4.0% at September 30, 2010.

NOTE 10 – CONCENTRATIONS

The Organization received revenues from one foundation and trust for the years ended September 30, 2010 and 2009, in the amounts of \$670,000 and \$545,000, respectively. Funds were provided for operations. These funds represented 64.1% and 71.6% of total contributions for the years ended September 30, 2010 and 2009, respectively.

NOTE 11 – CHARITABLE REMAINDER UNITARY TRUST

During 2001, a donor established a trust with a bank naming the Organization as one of five revocable beneficiaries of a charitable remainder unitary trust. The terms of the trust currently award the Organization \$50,000 for its unrestricted use upon the death of the donor and the donor's primary beneficiary. No amounts have been reflected in the financial statements for this contribution as the Organization's rights to the assets are not irrevocable.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 12 – COMMITMENTS

The Organization leases office space at \$820 per month. The lease term is from May 1, 2007 through April 30, 2012. During 2008, the Organization leased adjoining office space, which costs \$649 per month. This lease of office space expires on April 30, 2012. The Organization also has a lease with the Commissioner of Lewes for land at \$100 per year. The lease term is from November 14, 1955 to November 13, 2054. Additionally, the Organization leases

In 2006, the Organization entered into an operating lease agreement for office equipment at \$205 per month, which expires in June, 2011.

Rent expense for the years ended September 30, 2010 and 2009 was \$23,386 and \$21,607, respectively. Minimum expected future rent expense for the all operating leases are as follows for the year ended September 30:

| | | |
|------|----|---------------|
| 2011 | \$ | 22,033 |
| 2012 | | 12,845 |
| 2013 | | - |
| 2014 | | - |
| 2015 | | - |
| | | <hr/> |
| | \$ | <u>34,878</u> |

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Organization to significant concentrations of credit risk, are principally cash and investments.

Cash deposits are maintained in financial institutions within the Organization's operating area. These financial institutions are monitored by management to minimize its credit risk. Although these deposits exceed the amount insured from time to time, management believes the risk of loss is remote.

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 14 – SPECIAL EVENTS

The Organization holds special events during the year that help support its programs. Special events were as follows during the years ended September 30, 2010 and 2009:

| <u>Event</u> | <u>Year Ended September 30, 2010</u> | | |
|-----------------|--------------------------------------|---------------------|-------------------|
| | <u>Revenues</u> | <u>Expenses</u> | <u>Net</u> |
| Art show | \$ 104,568 | \$ (70,033) | \$ 34,535 |
| Beach party | 101,294 | (39,462) | 61,832 |
| Golf classic | 42,640 | (15,805) | 26,835 |
| Miles For Molly | 20,198 | (3,850) | 16,348 |
| Other | 4,771 | (2,920) | 1,851 |
| Total | <u>\$ 273,471</u> | <u>\$ (132,070)</u> | <u>\$ 141,401</u> |

| <u>Event</u> | <u>Year Ended September 30, 2009</u> | | |
|-----------------|--------------------------------------|---------------------|-------------------|
| | <u>Revenues</u> | <u>Expenses</u> | <u>Net</u> |
| Art show | \$ 87,061 | \$ (50,154) | \$ 36,907 |
| Beach party | 65,083 | (32,359) | 32,724 |
| Golf classic | 31,940 | (13,948) | 17,992 |
| Miles For Molly | 22,342 | (5,405) | 16,937 |
| Other | 1,504 | - | 1,504 |
| Total | <u>\$ 207,930</u> | <u>\$ (101,866)</u> | <u>\$ 106,064</u> |

CHILDREN'S BEACH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

NOTE 15 – RELATED PARTY TRANSACTIONS

The Chichester du Pont Foundation (the "Foundation") is related to the founder of the Children's Beach House, Inc. and is the major source of funding for the Youth Development Program and other events as well. The Organization has three of its Board members in common with the Foundation. During the years ended September 30, 2010 and 2009 the Foundation contributed \$670,000 and \$545,000, respectively.

NOTE 16 – SETTLEMENT PROCEEDS

The Organization filed a claim against a general contractor for damages incurred involving the construction of the Organization's property in Lewes, Delaware. During 2009, the Organization reached a settlement with the general contractor and received payments in the amount of \$300,000 for the settlement plus partial reimbursement of arbitration fees of \$22,825.

NOTE 17 – FUNDS HELD BY OTHERS

During the year ended September 30, 2005, the Organization established a fund at the Delaware Community Foundation (DCF) for its own benefit through an agreement that states that the endowments are owned and held by DCF. In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization that Raises or Holds Contributions for Others* (FASB ASC 958-605-05-4), these assets are included with investment assets on the Organization's statement of financial position even though the Organization has no legal title to the assets. The agreement states that future gifts will be invested and held by DCF, and that a portion of the invested gifts and related income will be distributed periodically to the Organization at DCF's discretion.

The fund consists of invested gifts, appreciation and related income net of administration and investment charges. The total value of this fund at September 30, 2010 and 2009 was \$289,141 and \$163,211, respectively.