

THE EMPTY STOCKING FUND, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

MARCH 31, 2011 AND 2010

**Prepared by
David B. Floyd, C.P.A., P.C.
Certified Public Accountants
300 Colonial Center Parkway, Suite 240
Roswell, Georgia 30076**

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DAVID B. FLOYD, C.P.A., P.C.
Certified Public Accountants

300 Colonial Center Parkway, Suite 240
Roswell, Georgia 30076
(770) 650-6824

E-Mail dbfcpa@bellsouth.net

Fax (770) 640-4756

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Empty Stocking Fund, Inc.
Atlanta, Georgia

We have audited the accompanying statements of financial position of The Empty Stocking Fund, Inc. (a Georgia not-for-profit corporation) as of March 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows, for the years 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audits provide a reasonable basis for our opinion.

In our opinion the aforementioned financial statements present fairly, in all material respects, the financial position of the Empty Stocking Fund, Inc. at March 31, 2011 and 2010, 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.



Atlanta, Georgia
October 5, 2011

THE EMPTY STOCKING FUND, INC.

Statements of Financial Position

March 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 297,253 | \$ 501,283 |
| Account receivable | - | 10,000 |
| Available-for-sale securities | 1,127,465 | 983,073 |
| Inventory | <u>93,297</u> | <u>70,667</u> |
| Total Current Assets | 1,518,015 | 1,565,023 |
| FIXED ASSETS | | |
| Machinery and equipment | 56,510 | 56,510 |
| Accumulated depreciation | <u>(48,793)</u> | <u>(44,059)</u> |
| Total Fixed Assets | 7,717 | 12,451 |
| OTHER ASSETS | | |
| Deposit | <u>2,000</u> | <u>2,000</u> |
| Total Other Assets | <u>2,000</u> | <u>2,000</u> |
| Total Assets | <u>\$ 1,527,732</u> | <u>\$ 1,579,474</u> |
| LIABILITIES and NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | <u>\$ 447</u> | <u>\$ 7,035</u> |
| Total Current Liabilities | 447 | 7,035 |
| NET ASSETS | | |
| Unrestricted net assets | 1,340,095 | 1,479,185 |
| Unrealized holding gains (losses) | <u>187,190</u> | <u>93,254</u> |
| Total Net Assets | <u>1,527,285</u> | <u>1,572,439</u> |
| Total Liabilities and Net Assets | <u>\$ 1,527,732</u> | <u>\$ 1,579,474</u> |

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statements of Activities

For the Years Ended March 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| UNRESTRICTED NET ASSETS | | |
| Unrestricted revenues and support | | |
| Direct mail and AJC envelope | \$ 635,176 | \$ 679,307 |
| Contributed services (Note D) | 65,744 | 89,788 |
| Corporate sponsorships | 92,833 | 74,763 |
| Sponsor-A-Child | 149,914 | 169,579 |
| Drive Day | 73,463 | 73,208 |
| Dividends and capital gains distributions | 25,715 | 25,445 |
| Foundations | 81,958 | 88,226 |
| Capital gains and (losses) | 31,365 | (57,740) |
| Gifts – securities | <u>200</u> | <u>228</u> |
| Total Unrestricted Revenues and Support | 1,156,368 | 1,142,804 |
| Expenditures | | |
| Program services | 956,615 | 959,028 |
| Supporting services | | |
| Fund raising | 223,878 | 236,713 |
| Management and general | 49,221 | 63,327 |
| Contributed services (Note D) | <u>65,744</u> | <u>89,788</u> |
| Total Expenditures | <u>1,295,458</u> | <u>1,348,856</u> |
| (Decrease) in Unrestricted Net Assets | (139,090) | (206,052) |
| Beginning Unrestricted Net Assets | 1,479,185 | 1,685,237 |
| Ending Unrestricted Net Assets | <u>\$ 1,340,095</u> | <u>\$ 1,479,185</u> |

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statement of Functional Expenses

For the Year Ended March 31, 2011

| | <u>Program Services</u> | <u>Fund Raising</u> | <u>Supporting Services</u> Management and <u>General</u> |
|---------------------------|-----------------------------|-------------------------|---|
| Cost of toys | \$ 744,522 | \$ - | \$ - |
| Salaries and wages | 99,780 | 21,243 | 20,030 |
| Payroll tax | 7,746 | 1,649 | 1,555 |
| Fringe benefits | 14,110 | 6,425 | 6,425 |
| Drive Day expenses | - | 9,067 | - |
| Direct mail expenses | - | 124,110 | - |
| AJC envelope expense | - | 14,980 | - |
| Sponsor-A-Child expense | - | - | - |
| Supplies | 100 | - | - |
| Postage | 13,305 | 166 | 286 |
| Recipient mailing | 14,139 | - | - |
| Legal and accounting | 996 | 543 | 272 |
| Bank and payroll fees | 301 | 3,840 | 301 |
| Contractor expenses | 26,790 | 33,487 | 6,698 |
| Depreciation | - | - | 4,734 |
| Telephone | 2,207 | 1,103 | 1,103 |
| Insurance | 2,814 | 1,535 | 767 |
| Administrative contractor | 2,000 | 4,000 | 4,000 |
| Office expenses | 932 | 508 | 254 |
| Miscellaneous | 26,795 | 1,179 | 1,915 |
| Taxes and licenses | - | - | 860 |
| Maintenance and repairs | - | - | - |
| Website fees | <u>78</u> | <u>43</u> | <u>21</u> |
| | <u>\$ 956,615</u> | <u>\$ 223,878</u> | <u>\$ 49,221</u> |

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statement of Functional Expenses

For the Year Ended March 31, 2010

| | | <u>Supporting Services</u> | Management and <u>General</u> |
|---------------------------------|-----------------------------|----------------------------|-------------------------------------|
| | <u>Program Services</u> | <u>Fund Raising</u> | |
| Cost of toys | \$ 766,443 | \$ - | \$ - |
| Salaries and wages | 118,356 | 25,298 | 25,228 |
| Payroll tax | 9,122 | 1,950 | 1,944 |
| Fringe benefits | 22,803 | 6,826 | 6,826 |
| Drive Day expenses | - | 10,417 | - |
| Direct mail expenses | - | 131,402 | - |
| AJC envelope expense | - | 13,124 | - |
| Supplies | 80 | 385 | 27 |
| Postage | 12,722 | 9 | 385 |
| Recipient mailing | 14,321 | - | - |
| Legal and accounting | - | - | 1,765 |
| Bank and payroll fees | 614 | 3,541 | 860 |
| Fundraising contractor expenses | - | 41,026 | - |
| Depreciation | - | - | 5,976 |
| Telephone | 1,160 | 1,160 | 1,160 |
| Insurance | 2,194 | 1,740 | 1,740 |
| Administrative contractor | - | - | 9,600 |
| Office expenses | - | - | 3,511 |
| Other expenses | - | - | 2,823 |
| Miscellaneous | 11,213 | (165) | 1,344 |
| Taxes and licenses | - | - | 30 |
| Maintenance and repairs | - | - | - |
| Website fees | <u>-</u> | <u>-</u> | <u>108</u> |
| | <u>\$ 959,028</u> | <u>\$ 236,713</u> | <u>\$ 63,327</u> |

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statements of Cash Flows

For the Years Ended March 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Funds provided by (used by): | | |
| Increase/Decrease in net unrestricted assets | \$ (139,090) | \$ (206,052) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on disposition of securities | (31,365) | 57,740 |
| Donated securities | 200 | 228 |
| Depreciation | 4,734 | 5,976 |
| Changes in assets and liabilities: | | |
| (Increase) Decrease in inventory | (22,630) | (9,889) |
| (Increase) Decrease in accounts receivable | 10,000 | (10,000) |
| Increase (Decrease) in accounts payable | <u>(6,588)</u> | <u>2,971</u> |
| Net Cash Flows Provided By Operating Activities | (184,739) | (159,026) |
| Cash flows from (used in) investing activities: | | |
| Purchases of fixed assets | - | (1,267) |
| Proceeds – sale of securities | 455,394 | 651,290 |
| Purchases of marketable securities | <u>(474,685)</u> | <u>(683,787)</u> |
| Net Cash Used In Investing Activities | <u>(19,291)</u> | <u>(33,764)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (204,030) | (192,790) |
| Cash and Cash Equivalents at Beginning of Year | <u>501,283</u> | <u>694,073</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 297,253</u> | <u>\$ 501,283</u> |

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Empty Stocking Fund, Inc. (the Fund) is a Georgia (not-for-profit) corporation whose purpose is to purchase and distribute toys to needy children. The Fund receives charitable contributions from individuals, corporations, and public and private foundations. The majority of activities of the Fund are conducted or supported by numerous volunteers. These volunteers include individuals, civic organizations and corporate volunteer groups. A volunteer Board of Directors also governs the Fund.

2. Basis of Accounting

The accounts of the Fund are maintained in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

3. Property and Equipment

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful life of each asset. Maintenance and repairs are charged to operations when incurred. Depreciation expense incurred for the years ended March 31, 2011 and 2010 were \$4,734 and \$5,976, respectively.

4. Marketable Securities

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Debt and Equity Securities," securities are classified in three categories: available-for-sale, held-to-maturity and trading.

Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value and include securities not classified as held-to-maturity or trading. Trading securities are those held principally for the purpose of selling in the near future and are carried at fair value. The Fund currently has no held-to-maturity or trading securities.

Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported net of any income tax effect as a separate component of net assets.

5. Contributed Services

Donated toys, materials, advertising, and other services are reflected as support revenue and expense at estimated fair market value at the date of donation. A substantial number of unpaid volunteers have made contributions of their time to develop and support various activities of the Fund. The value of this time is not reflected in these statements since it is not susceptible to objective measurement of valuation.

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Concentration of Risk

The Fund has several cash accounts located in one financial institution. Federal insurance coverage is unlimited for non-interest bearing accounts, while the insurance coverage limit is \$250,000 for interest bearing accounts. At March 31, 2011, no amounts exceed federally insured limits.

7. Financial Statement Presentation

In 1996 the Fund elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations," early. Under SFAS No. 117, the Fund is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Fund is required to present a statement of cash flows.

8. Functional Expenses

Costs are charged to Program Services, Management and General, and Fund Raising Functions based on direct expenditures incurred. Expenses not directly chargeable to these functional categories are allocated based on percentage usage and square footage.

9. Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

10. Inventory

Inventories consist of toys and other gift items. Inventories are stated at lower of cost or market.

NOTE B – CASH AND CASH EQUIVALENTS

| | <i>2011</i> | <i>2010</i> |
|------------------------|--------------------|--------------------|
| Cash | \$ 265,011 | \$ 472,268 |
| Money market accounts | 32,242 | 29,015 |
| Certificate of deposit | <u> -</u> | <u> -</u> |
| | <u>\$ 297,253</u> | <u>\$ 501,283</u> |

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE C – MARKETABLE SECURITIES

Marketable securities consist primarily of mutual funds and common stock as follows:

| | <i>Cost</i> | <i>FMV</i> | <i>Unrealized Holding Gains (Losses)</i> |
|----------------------------------|-------------------|---------------------|---|
| <hr/> | | | |
| <u>2011 - Available-for-Sale</u> | | | |
| Mutual funds | \$ - | \$ - | \$ - |
| Fixed income securities | - | - | - |
| Common stocks – ETF’s | <u>940,275</u> | <u>1,127,465</u> | <u>187,190</u> |
| | <u>\$ 940,275</u> | <u>\$ 1,127,465</u> | <u>\$ 187,190</u> |
| | | | |
| <u>2010 - Available-for-Sale</u> | | | |
| Mutual funds | \$ - | \$ - | \$ - |
| Fixed income securities | - | - | - |
| Common stocks – ETF’s | <u>889,819</u> | <u>983,073</u> | <u>93,254</u> |
| | <u>\$ 889,819</u> | <u>\$ 983,073</u> | <u>\$ 93,254</u> |
| <hr/> | | | |

Components of investment return included dividends and capital gains and losses as follows:

| | <i>March 31, 2011</i> | <i>March 31, 2010</i> |
|---|-----------------------|-----------------------|
| <hr/> | | |
| Dividends - reinvested | \$ 25,587 | \$ 25,118 |
| Dividends and interest | <u>128</u> | <u>327</u> |
| | <u>\$ 25,715</u> | <u>\$ 25,445</u> |
| | | |
| Capital gains (loss) stock/ETF sales | \$ 31,365 | \$ (57,740) |
| Capital gains distributions - mutual fund | - | - |
| Capital losses - mutual fund sales | <u>-</u> | <u>-</u> |
| | <u>\$ 31,365</u> | <u>\$ (57,740)</u> |
| <hr/> | | |

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE D – CONTRIBUTED SERVICES

For the year ended March 31, 2011, the amount of contributed services income and expense includes \$65,744 in donated, advertising and promotion, consulting, mailing and printing services, books and videos for distribution to recipients, office rent, and volunteer recognition expenses. The Fund welcomes the donation of these complimentary services.

For the year ended March 31, 2010, the amount of contributed services income and expense was \$89,788.

NOTE E - INCOME TAXES

No provision for income taxes has been made because the Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Fund is also exempt from state income taxes. In addition, the Fund is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

NOTE F – RETIREMENT PLAN

The Fund provides a 401(k) retirement plan. Under this plan, the company can match up to 6% of the employee's salary deferrals. The Fund can make a onetime discretionary contribution based on an employee's percentage of all eligible employees total compensation. Matching contributions made by the Fund for the year ended March 31, 2011 were \$1,800. Discretionary contributions made by the Fund for the year ended March 31, 2011 were \$18,600.