

**CHILDREN, INCORPORATED**

FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

# CHILDREN, INCORPORATED

## OFFICERS

Richard E. Baltimore  
Chairman of the Board

Dana D. McDaniel  
Vice Chairman

Anne T. Schaffer  
Secretary

Virginia F. Marchetti  
Assistant Secretary

Timothy E. Carpenter  
Treasurer

Marian G. Cummins  
President and Chief Executive Officer

Peter N. Pastore  
Chief Operating Officer

## OFFICIAL DIRECTORS

Mana Behbin

Judy Buchanan

J. Calvitt Clarke, III

Keith Dull

E. Grice Galleher

Thomas J. Lawson

Richard A. Popkin

James K. Walker

Herman E. Wood, III

Jeanne Clarke Wood  
Founder (October, 1964)  
Deceased (January, 2006)

# CHILDREN, INCORPORATED

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THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE  
SECTION OF THE AICPA

December 12, 2009

INDEPENDENT AUDITORS' REPORT

To the Officers and Directors  
of Children, Incorporated  
Richmond, Virginia

We have audited the accompanying statements of financial position of **Children, Incorporated** (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities, cash flows, and functional expenses 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements referred to above present fairly, in all material respects, the financial position of Children, Incorporated 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of potential annual sponsorship revenue on page 16 and the listing of officers and directors following the title page are presented for additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

*Joyner, Kirkham, Keel & Robertson, P.C.*

**CHILDREN, INCORPORATED**

## STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u> <u>(Restated)</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 570,009	\$ 436,880
Investments	1,584,160	2,921,153
Accrued interest receivable	2,808	7,229
Employee receivables	5,940	14,998
Unconditional promises to give	634,615	478,029
Prepaid expenses	27,402	42,422
Property and equipment (net of accumulated depreciation)	<u>1,441,631</u>	<u>1,506,614</u>
<u>TOTAL ASSETS</u>	<u>\$ 4,266,565</u>	<u>\$ 5,407,325</u>

LIABILITIES AND NET ASSETSLIABILITIES

Accounts payable - trade creditors	\$ 49,345	\$ 37,015
Accrued subsidies	360,164	366,155
Accrued salaries and wages	67,947	58,081
Other liabilities	27,225	30,034
Capital lease obligation	<u>26,181</u>	<u>32,190</u>
<u>Total Liabilities</u>	<u>530,862</u>	<u>523,475</u>

NET ASSETS

Unrestricted		
Operating	(569,047)	462,974
Designated	96,000	102,000
Property and equipment	<u>1,441,631</u>	<u>1,506,614</u>
<u>Total Unrestricted</u>	968,584	2,071,588
Temporarily restricted	2,667,119	2,712,262
Permanently restricted	<u>100,000</u>	<u>100,000</u>
<u>Total Net Assets</u>	<u>3,735,703</u>	<u>4,883,850</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 4,266,565</u>	<u>\$ 5,407,325</u>

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENTS OF ACTIVITIES

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u> (Restated)
<b><u>UNRESTRICTED NET ASSETS</u></b>		
Support		
Other contributions	\$ 180,442	\$ 241,272
Bequests	258,804	90,578
Investment (loss) income	(591,064)	14,773
Other income	20,995	15,545
	<u>(130,823)</u>	<u>362,168</u>
<u>Total Unrestricted Support</u>		
Net assets released from restrictions	<u>5,861,610</u>	<u>6,446,407</u>
	<u>5,730,787</u>	<u>6,808,575</u>
<b><u>TEMPORARILY RESTRICTED NET ASSETS</u></b>		
Expenses		
Child care program	5,641,577	5,968,939
Fund raising	658,846	890,718
Management and general	533,368	423,028
	<u>6,833,791</u>	<u>7,282,685</u>
<u>Total Expenses</u>		
Decrease in Unrestricted Net Assets	<u>(1,103,004)</u>	<u>(474,110)</u>
Sponsorship contributions	4,076,850	4,253,595
Other contributions	1,455,030	1,500,413
Commodity gifts	293,396	306,308
Investment income	(8,809)	22,452
Net assets released from restrictions	<u>(5,861,610)</u>	<u>(6,446,407)</u>
	<u>(45,143)</u>	<u>(363,639)</u>
<u>Decrease in Temporarily Restricted Net Assets</u>		
Decrease in Net Assets	<u>(1,148,147)</u>	<u>(837,749)</u>
<b><u>NET ASSETS</u></b>		
Beginning of year	<u>4,883,850</u>	<u>5,721,599</u>
End of year	<u>\$ 3,735,703</u>	<u>\$ 4,883,850</u>

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u> (Restated)
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Decrease in net assets	\$ (1,148,147)	\$ (837,749)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation	74,293	69,306
Net loss on disposition of equipment	275	2,565
Unrealized (gain) loss on investment securities	(86,713)	114,734
Realized loss on investment securities	743,265	18,789
Change in operating assets and liabilities		
Unconditional promises to give	(156,586)	16,403
Accrued interest receivable	4,421	793
Prepaid expenses and other assets	24,078	25,680
Accounts payable and accrued expenses	13,396	(193,140)
<u>Total Adjustments</u>	<u>616,429</u>	<u>55,130</u>
<u>Net Cash Used in Operating Activities</u>	<u>(531,718)</u>	<u>(782,619)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of property and equipment	(9,585)	(34,360)
Purchase of investment securities	(2,356,936)	(2,607,709)
Proceeds from sale of investment securities	3,037,377	3,204,802
<u>Net Cash Provided by Investing Activities</u>	<u>670,856</u>	<u>562,733</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on capital lease obligation	(6,009)	(5,151)
<u>Net Cash Used in Financing Activities</u>	<u>(6,009)</u>	<u>(5,151)</u>
<u>Net Increase (Decrease) in Cash</u>	133,129	(225,037)
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	436,880	661,917
End of year	<u>\$ 570,009</u>	<u>\$ 436,880</u>

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2009

	Program	<u>Supporting Services</u>		Total
	<u>Services</u>	Fund	Management	
	<u>Child Care</u>	<u>Raising</u>	<u>and General</u>	
				<u>Expenses</u>
Salaries	\$ 1,030,566	\$ 201,106	\$ 289,829	\$ 1,521,501
Payroll taxes	79,106	16,197	22,276	117,579
Employee health and retiremen	123,546	26,379	34,649	184,574
<u>Total Salaries and Related Expenses</u>	<u>1,233,218</u>	<u>243,682</u>	<u>346,754</u>	<u>1,823,654</u>
Subsidies for childrer	2,450,033	-	-	2,450,033
Special gifts	1,350,384	-	-	1,350,384
Commodity gifts	293,396	-	-	293,396
Professional and consultant fees	12,723	41,953	118,818	173,494
Advertising	350	239,266	52	239,668
Bank service fees	37,753	1	14	37,768
Conferences and meeting	2,157	3,384	2,913	8,454
Contract labor	4,738	11,712	64	16,514
Depreciation	29,717	29,717	14,859	74,293
Dues and subscriptions	-	72	2,500	2,572
Heat, lights and water	3,611	3,611	1,806	9,028
Insurance - general	12,892	12,892	6,475	32,259
Interest	400	400	200	1,000
Loss on disposition of equipmen	-	-	275	275
Miscellaneous	2,932	2,665	8,365	13,962
Other publicity	-	6,780	35	6,815
Other supplies	853	853	466	2,172
Photos	-	1,159	-	1,159
Postage	95,928	1,534	1,455	98,917
Rental of equipmen	2,022	2,022	1,011	5,055
Repairs and maintenance - building	9,496	9,496	4,747	23,739
Repairs and maintenance - equipmen	13,513	12,752	7,087	33,352
Stationary, printing and office supplies	11,982	20,359	5,899	38,240
Taxes and licenses	6,043	6,043	5,642	17,728
Telephone and cable	8,663	6,001	3,425	18,089
Travel and entertainmen	58,773	2,492	506	61,771
	<u>5,641,577</u>	<u>658,846</u>	<u>533,368</u>	<u>6,833,791</u>
<u>Total Expenses</u>	<u>\$ 5,641,577</u>	<u>\$ 658,846</u>	<u>\$ 533,368</u>	<u>\$ 6,833,791</u>

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008 (Restated)

	Program	<u>Supporting Services</u>		Total
	<u>Services</u>	Fund	Management	
	<u>Child Care</u>	<u>Raising</u>	<u>and General</u>	
	Child Care	Raising	and General	Expenses
Salaries	\$ 990,203	\$ 238,625	\$ 261,523	\$ 1,490,351
Payroll taxes	74,647	18,275	20,145	113,067
Employee health and retirement	122,239	29,608	33,888	185,735
<u>Total Salaries and Related Expenses</u>	<u>1,187,089</u>	<u>286,508</u>	<u>315,556</u>	<u>1,789,153</u>
Subsidies for children	2,496,373	-	-	2,496,373
Special gifts	1,640,534	-	-	1,640,534
Commodity gifts	306,308	-	-	306,308
Professional and consultant fees	25,958	45,215	38,265	109,438
Advertising	-	389,316	-	389,316
Auto expenses	-	9,886	90	9,976
Bank service fees	34,701	-	-	34,701
Conferences and meetings	5,065	4,547	1,961	11,573
Contract labor	410	14,869	205	15,484
Depreciation	27,722	27,722	13,861	69,305
Dues and subscriptions	-	282	3,861	4,143
Heat, lights and water	3,480	3,480	1,740	8,700
Insurance - general	12,930	12,930	6,465	32,325
Interest	169	169	85	423
Loss on disposition of equipment	-	-	2,565	2,565
Miscellaneous	3,174	2,616	6,971	12,761
Other supplies	861	869	431	2,161
Photos	-	3,489	-	3,489
Postage	102,679	17,794	483	120,956
Rental of equipment	462	462	231	1,155
Repairs and maintenance - building	8,305	8,305	4,152	20,762
Repairs and maintenance - equipment	10,739	10,739	5,369	26,847
Stationary, printing and office supplies	16,445	33,152	6,596	56,193
Taxes and licenses	5,995	5,995	5,933	17,923
Telephone and cable	6,499	5,960	4,233	16,692
Travel and entertainment	73,041	6,413	3,975	83,429
<u>Total Expenses</u>	<u>\$ 5,968,939</u>	<u>\$ 890,718</u>	<u>\$ 423,028</u>	<u>\$ 7,282,685</u>

See accompanying notes

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Nature of Organization*

Children, Incorporated (Organization) is a not-for-profit, voluntary health and welfare organization incorporated under the laws of Virginia. Its purpose is to assist children of all races and creeds throughout the world, administering to their physical, mental and spiritual needs. It is the aim of the Organization to assist and cooperate with other organizations and institutions which are dedicated to the maintenance, support, education and welfare of needy children, and the maintenance and education of young adults seeking higher education. The Organization is supported primarily by donations from individual donors.

b. *Method of Accounting*

The financial statements of Children, Incorporated have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

c. *Basis of Presentation*

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

d. *Cash and Cash Equivalents*

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

e. *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities. Realized gains and losses are determined by the average cost method.

The Organization's investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

f. *Property and Equipment*

All acquisitions of property and equipment in excess of \$100 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

g. *Unconditional promises to give and recognition of income*

Contributions are recognized, at fair value, when the donor makes a promise to give to the Organization that is, in substance, unconditional. Sponsorship contributions are recognized as temporarily restricted revenue. Other contributions that are restricted by the donor are reported as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*g. Unconditional promises to give and recognition of income (continued)*

The Organization used the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

*h. Income Tax Status*

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, Children, Incorporated has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

*i. Functional allocation of expenses*

The costs of providing the Organization's child care program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

*j. Fund Raising Advertising*

Fund raising advertising cost is expensed the first time the advertising takes place.

*k. 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

*l. Reclassifications*

Certain reclassifications have been made to the 2008 amounts to conform to the 2009 presentation.

### NOTE 2 – INVESTMENTS

Investments at June 30, 2009 and 2008 consisted of the following:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Certificate of deposits	\$ 34,582	\$ 34,582	\$ 34,260	\$ 34,260
Mutual funds - fixed	723,442	729,270	611,825	606,277
Mutual funds - equities	781,418	820,308	1,497,920	1,479,116
Corporate stocks	-	-	374,579	342,951
US Treasury and agency obligations	-	-	444,563	458,549
Total Investments at Cost and Fair Value	<u>\$ 1,539,442</u>	<u>\$ 1,584,160</u>	<u>\$ 2,963,147</u>	<u>\$ 2,921,153</u>

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 – INVESTMENTS (Continued)

Investment income for the years ended June 30, 2009 and 2008 consisted of the following components:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 4,086	\$ 32,514
Dividend income	100,917	189,019
Net realized gains	(743,265)	(18,789)
Net unrealized gains (losses)	86,713	(114,734)
Management fees	<u>(48,324)</u>	<u>(50,785)</u>
 Total Investment Income	 <u>\$ (599,873)</u>	 <u>\$ 37,225</u>

### NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 670,930	\$ 499,320
Less allowance for uncollectible promises	<u>36,315</u>	<u>21,291</u>
 Net Unconditional Promises to Give	 <u>\$ 634,615</u>	 <u>\$ 478,029</u>

### NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 279,621	\$ 279,621
Building	1,123,053	1,123,053
Furniture and equipment	<u>341,135</u>	<u>346,565</u>
Total Property and Equipment	1,743,809	1,749,239
Less accumulated depreciation	<u>302,178</u>	<u>242,625</u>
 Net Property and Equipment	 <u>\$ 1,441,631</u>	 <u>\$ 1,506,614</u>

Included in furniture and equipment are two copiers under a capital lease obligation. The gross amount of the leased copiers is \$32,190 at June 30, 2009 and 2008. Amortization on the capitalized equipment has been included in depreciation and amounted to \$6,438 and \$0 at June 30, 2009 and 2008, respectively.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 – TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	2009	2008
For periods after June 30, 2009 and 2008	\$ 1,238,573	\$ 1,342,259
Trust and education	1,170,849	1,127,578
Children residing in specified regions or countries	2,407	1,161
Clothing and supplies	54,822	35,986
Disaster relief and emergency funds	10,355	15,384
Special projects	120,132	127,961
Other child care	69,980	53,124
Total Temporarily Restricted Net Assets	\$ 2,667,118	\$ 2,703,453

Net assets released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors are as follows:

	2009	2008
Time Restrictions Expired:		
Sponsorships	\$ 4,271,595	\$ 4,438,331
Designated funds	950,382	934,573
Total Time Restrictions Expired	5,221,977	5,372,904
Purpose Restrictions Accomplished:		
Commodity gifts	293,396	306,308
Trust and education	76,311	21,342
Children in specific regions	4,096	7,319
Clothing and supplies	55,327	37,008
Disaster and emergency	12,936	15,524
Special projects	81,722	510,196
Other child care	115,845	161,752
Building	-	14,054
Total Purpose Restrictions Accomplished	639,633	1,073,503
Total Restrictions Released	\$ 5,861,610	\$ 6,446,407

### NOTE 6 – BOARD DESIGNATED NET ASSETS

The Board designates a portion of its funds to provide Christmas gifts to children each year.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

The Organization's endowment consists of one individual fund established for the purpose that the principal is to be held indefinitely and income from which is expendable to fund as many sponsorships as possible. As required by GAAP, net assets associated with endowment funds, including funds (if any) designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gift donated to the permanent endowment, (b) the original value of subsequent gifts (if any) to the permanent endowment, and (c) 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 the donor-restricted endowment fund 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 SPMIFA. In accordance with SPMIFA, 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 purposes of the organization and 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) Other resources of the organization
- (7) The investment policies of the organization.

The composition of the endowment fund as of June 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Donor-restricted endowment fund:		
Permanently restricted	\$ 100,000	\$ 100,000
Temporarily restricted	-	8,809
Unrestricted (Fair value below amount to be retained)	<u>(17,366)</u>	<u>-</u>
	<u>\$ 82,634</u>	<u>\$ 108,809</u>

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

The change in the endowment fund for the year ended June 30, 2009 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets (beginning of year)	\$ -	\$ 8,809	\$ 100,000
Investment return			
Investment income (net of fees of \$717)	-	2,685	-
Net depreciation (realized and unrealized)	<u>(17,366)</u>	<u>(11,494)</u>	<u>-</u>
End of Year	<u>\$ (17,366)</u>	<u>\$ -</u>	<u>\$ 100,000</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$17,366 as of June 30, 2009. This deficiency resulted from unfavorable market fluctuations that occurred during the year ended June 30, 2009.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for sponsorships 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately eight 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 diversified 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 adopted a policy of appropriating for distribution each year, a percent the Organization deems prudent, of its endowment fund's fair value through the fiscal year-end preceding the fiscal 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 three percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 – CAPITAL LEASE OBLIGATION

The Organization leased two copiers under a lease agreement that was set to expire in June 2009. Effective June 2008, the Organization exchanged those copiers for two new copiers and a new five year lease agreement. The following is a schedule by years of future minimum lease payments required under this new lease, as of June 30, 2009:

Year ending June 30,		
2010	\$	7,009
2011		7,009
2012		7,009
2013		7,009
Total future minimum lease payments		<u>28,036</u>
Less amount representing interest		<u>(1,855)</u>
Present value of minimum lease payments	\$	<u><u>26,181</u></u>

Interest paid and expensed under these leases was \$1,000 and \$423 for the years ended June 30, 2009 and 2008, respectively

### NOTE 9 – FAIR VALUE MEASUREMENTS

Effective for the year ended June 30, 2009, the Organization adopted FASB Statement No. 157, Fair Value Measurements (SFAS No.157). SFAS No. 157 does not require any new fair value measurements, but rather replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements.

SFAS No. 157 defines fair value as 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. Assets and liabilities recorded at fair value in accordance with SFAS No. 157 are classified based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchical levels related to the subjectivity of the valuation inputs are defined by SFAS No. 157 as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable, directly or indirectly through corroboration with observable market data at the measurement date.

Level 3 inputs are unobservable inputs that reflect management's best estimate of the assumptions (including assumptions about risk) that market participants would use in pricing the asset or liability at the measurement date.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9 – FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis at December 31, 2008 are categorized in the table below based on the lowest level of significant input to the valuation.

Description	Fair values	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities:				
Mutual funds	\$ <u>1,549,578</u>	\$ <u>1,549,578</u>	\$ <u>-</u>	\$ <u>-</u>

### NOTE 10 – RETIREMENT PLAN

The Organization has established a retirement tax sheltered annuity 403(b) plan for all employees who normally work more than twenty hours per week. This is a voluntary contributory plan and the Organization matches the employee contribution up to 3% of compensation. In addition, the Organization may declare a discretionary contribution equal to a uniform percentage (as determined each year by the employer) of the employee contributions. Contributions to the plan by the Organization amounted to \$38,419 for the year ended June 30, 2009 and \$41,009 for the year ended June 30, 2008.

### NOTE 11 – CONCENTRATION OF CREDIT RISK

The Organization maintains its checking accounts in a regional bank and has money market accounts held at two investment firms. Checking account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2009, uninsured checking account balances totaled \$287,905 and uninsured money market accounts totaled \$62,249.

### NOTE 12 – DONATED MATERIALS, SERVICES AND FACILITIES

Donated materials, consisting of food, clothing, toys, etc., have been recognized in the statement of activities at their fair value at date of receipt.

The Organization receives donated services from a variety of unpaid volunteers assisting in projects throughout the world. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 13 – SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing and financing activities during 2008 consisted of the following:

Capitalized leased equipment with a remaining book value of \$7,573 was returned to the lessor and a capitalized lease obligation with a remaining balance of \$5,008 was terminated resulting in a loss of \$2,565. A capital lease obligation of \$32,190 was incurred when the Organization entered into a lease for new equipment.

### NOTE 14 – RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

In March 2008, the State of Virginia adopted the *Uniform Prudent Management of Institutional Funds Act*. In August 2008, the Financial Accounting Standards Board issued staff position 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. Because of the foregoing, the Organization reviewed its practices concerning restricted funds and determined that one contribution received in a prior year should be accounted for as a permanently restricted endowment type fund under the new law. Several other accounts which had been held in separate accounts were determined not to be endowment type accounts. As of June 30, 2008, in order to reflect the new determinations, \$180,258 was transferred from unrestricted funds and \$71,449 and \$108,809 were transferred into temporary and permanent restricted funds, respectively. This change had no effect on "Decrease in Net Assets" for the year ended June 30, 2008.

### NOTE 15 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2009, it was discovered that The Organization had been accounting for special Christmas gifts sent as subsidies to children each year as a liability at the end of the prior year. After reconsideration, it was determined that they should have been shown as board designated funds. The net effect of reclassifying the liability account at June 30, 2008 was to decrease total liabilities by \$102,000, decrease functional expenses by \$1,500 and increase beginning unrestricted net assets by \$100,500.

ADDITIONAL INFORMATION

## CHILDREN, INCORPORATED

### SCHEDULE OF POTENTIAL ANNUAL SPONSORSHIP REVENUE

June 30, 2009  
(Unaudited)

As of June 30, 2009, the Organization had obtained 13,829 sponsorships. Assuming all sponsorships continue at current rates during the coming year, potential annual revenue will be \$4,385,820 as indicated in the following tabulation:

<u>Number of Sponsors</u>	<u>Annual Rate</u>	<u>Potential Revenue</u>
1	\$ 120	\$ 120
12	144	1,728
78	180	14,040
1	192	192
360	216	77,760
89	240	21,360
759	252	191,268
5	276	1,380
2,620	288	754,560
285	300	85,500
9,372	336	3,148,992
<u>247</u>	360	<u>88,920</u>
<u>13,829</u>		<u>\$ 4,385,820</u>