

CHILDREN, INCORPORATED

Financial Statements

For the Years Ended
June 30, 2010 and 2009

CHILDREN, INCORPORATED

OFFICERS

Richard E. Baltimore
Chairman of the Board

Dana D. McDaniel
Vice Chairman

Virginia F. Marchetti
Secretary

Timothy E. Carpenter
Treasurer

Marian G. Cummins
President and Chief Executive Officer

OFFICIAL DIRECTORS

Mana Behbin
J. Calvin Clarke, III
E. Grice Galleher
Richard A. Popkin
Heriman E. Wood, III

Judy Buchanan
Keith Dull
Thomas J. Lawson
James K. Walker

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

CHILDREN, INCORPORATED

Contents

	Page
Independent Auditors' Report.....	1
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Statements of Functional Expenses.....	5
Notes to Financial Statements.....	6-13
Supplemental Information (Unaudited):	
Schedule of Potential Annual Sponsorship Revenue.....	14



Independent Auditors' Report

To the Officers and Directors
Children, Incorporated
Richmond, Virginia

We have audited the accompanying statement of financial position of Children, Incorporated (the "Organization") as of June 30, 2010, and the related statements of activities, cash flows and functional expenses 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 financial statements as of June 30, 2009 and for the year then ended which were audited by other auditors whose report, dated December 12, 2009, expressed an unqualified opinion on those 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, Incorporated as of June 30, 2010 and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted 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 13 is presented for additional analysis and is 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 statement and, accordingly, we express no opinion on it.

Richmond, Virginia
December 3, 2010

CHILDREN, INCORPORATED

Statement of Financial Position June 30, 2010 (With Comparative Totals for 2009)

	June 30,	
	2010	2009
Assets		
Cash and cash equivalents	\$ 375,765	\$ 507,760
Unconditional promises to give	345,130	634,615
Accrued interest receivables	4,062	2,808
Employee receivables	2,764	5,940
Prepaid expenses	46,664	27,402
Investments	1,667,343	1,646,409
Property and equipment, net	1,443,152	1,441,631
Total assets	\$ 3,884,880	\$ 4,266,565
Liabilities and Net Assets		
Liabilities	\$ 4,403	\$ 49,345
Accounts payable	321,149	360,164
Accrued subsidies	46,364	67,947
Accrued salaries and wages	45,556	27,225
Other liabilities	19,965	26,181
Capital lease obligation	437,437	530,862
Total liabilities	437,437	530,862
Net assets		
Unrestricted	(834,332)	(569,047)
Operating	99,262	96,000
Designated	1,422,317	1,441,631
Property and equipment	687,247	968,584
Total unrestricted	2,660,196	2,667,119
Temporarily restricted	100,000	100,000
Permanently restricted	3,447,443	3,735,703
Total net assets	3,447,443	3,735,703
Total liabilities and net assets	\$ 3,884,880	\$ 4,266,565

See notes to financial statements.

CHILDREN, INCORPORATED

Statement of Activities For The Year Ended June 30, 2010 (With Comparative Totals for 2009)

	2010			2009	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues					
Sponsorship contributions	\$ -	\$ 2,858,494	\$ -	\$ 2,858,494	\$ 4,076,850
Other contributions	1,041,689	1,478,631	-	2,520,320	1,635,472
Bequests	78,959	-	-	78,959	258,804
Commodity gifts	-	309,882	-	309,882	293,396
Investment income	252,581	-	-	252,581	(599,873)
Other income	-	-	-	-	20,995
Total revenues	<u>1,373,229</u>	<u>4,647,007</u>	<u>-</u>	<u>6,020,236</u>	<u>5,685,644</u>
Net assets released from restrictions	<u>4,653,930</u>	<u>(4,653,930)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and reclassifications	<u>6,027,159</u>	<u>(6,923)</u>	<u>-</u>	<u>6,020,236</u>	<u>5,685,644</u>
Expenses					
Program Services				5,144,764	5,641,577
Child care program	5,144,764	-	-	5,144,764	5,641,577
Total program services	<u>5,144,764</u>	<u>-</u>	<u>-</u>	<u>5,144,764</u>	<u>5,641,577</u>
Supporting Services				375,850	658,846
Fundraising	375,850	-	-	787,883	533,368
Management and general	787,883	-	-	1,163,733	1,192,214
Total supporting services	<u>1,163,733</u>	<u>-</u>	<u>-</u>	<u>1,163,733</u>	<u>1,192,214</u>
Total expenses	<u>6,308,496</u>	<u>-</u>	<u>-</u>	<u>6,308,496</u>	<u>6,833,791</u>
Change in net assets	<u>(281,337)</u>	<u>(6,923)</u>	<u>-</u>	<u>(288,260)</u>	<u>(1,148,147)</u>
Net assets, beginning of year	<u>968,584</u>	<u>2,667,119</u>	<u>100,000</u>	<u>3,735,703</u>	<u>4,883,850</u>
Net assets, end of year	<u>\$ 687,247</u>	<u>\$ 2,660,196</u>	<u>\$ 100,000</u>	<u>\$ 3,447,443</u>	<u>\$ 3,735,703</u>

See notes to the financial statements.

CHILDREN, INCORPORATED

Statement of Cash Flows For the Year Ended June 30, 2010 (With Comparative Totals for 2009)

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (288,260)	\$ (1,148,147)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	80,203	74,293
Net loss on disposition of equipment	449	275
Unrealized gain on investment securities	(72,039)	(86,713)
Realized (gain) loss on investment securities	(142,949)	743,265
Change in operating assets and liabilities		
Unconditional promises to give	289,485	(156,586)
Other receivables	1,922	4,421
Prepaid expenses and other assets	(19,262)	24,078
Accounts payable and accrued expenses	(87,209)	13,396
Total adjustments	50,600	616,429
Net cash used in operating activities	(237,660)	(531,718)
Cash flows from investing activities:		
Purchases of property and equipment	(82,173)	(9,585)
Purchases of investment securities	(804,298)	(2,419,185)
Proceeds from sale of investment securities	998,352	3,037,377
Net cash provided by investing activities	111,881	608,607
Cash flows from financing activities:		
Principal payments on capital lease obligation	(6,216)	(6,009)
Net increase (decrease) in cash	(131,995)	70,880
Cash and cash equivalents		
Beginning of year	507,760	436,880
End of year	\$ 375,765	\$ 507,760

See notes to financial statements.

CHILDREN, INCORPORATED

Statement of Functional Expenses For the Year Ended June 30, 2010 (With Comparative Totals for 2009)

	Program Services	Supporting Services		Total Expenses 2010	Total Expenses 2009
	Child Care Program	Fundraising	Management and General		
Salaries	\$ 732,764	\$ 88,268	\$ 520,474	\$ 1,341,506	\$ 1,521,501
Payroll taxes	56,028	6,817	40,288	103,133	117,579
Employee health and retirement	86,761	18,160	58,614	163,535	184,574
Total salaries and related expenses	875,553	113,245	619,376	1,608,174	1,823,654
Subsidies for children	2,280,934	-	-	2,280,934	2,450,033
Special gifts	1,348,759	-	-	1,348,759	1,350,384
Commodity gifts	294,548	-	-	294,548	293,396
Christmas gifts	44,629	-	-	44,629	-
Professional and consultant fees	69,110	12,286	8,831	90,227	173,494
Advertising	-	184,531	340	184,871	239,668
Bank service fees	12,993	673	38,099	51,765	37,768
Conferences and meetings	3,270	609	487	4,366	8,454
Contract labor	16,200	1,200	-	17,400	16,514
Depreciation	34,086	19,249	26,868	80,203	74,293
Dues and subscriptions	362	75	3,110	3,547	2,572
Heat, lights and water	3,667	652	3,829	8,148	9,028
Insurance - general	10,736	2,322	14,075	27,133	32,259
Interest	337	190	265	792	1,000
Loss on disposition of equipment	191	108	150	449	275
Miscellaneous	10,995	1,955	11,484	24,434	13,962
Other publicity	-	-	-	-	6,815
Other supplies	1,481	129	760	2,370	2,172
Photos	-	-	-	-	1,159
Postage	49,454	11,451	18,099	79,004	98,917
Rental of equipment	4,226	862	4,344	9,432	5,055
Repairs and maintenance - building	9,268	1,671	9,346	20,285	23,739
Repairs and maintenance - equipment	7,817	3,996	6,493	18,306	33,352
Stationary, printing and office supplies	11,909	7,993	7,097	26,999	38,240
Taxes and licenses	6,630	4,770	7,744	19,144	17,728
Telephone and cable	7,462	1,366	6,183	15,011	18,089
Travel and entertainment	40,147	6,517	903	47,567	61,771
Total expenses	\$ 5,144,764	\$ 375,850	\$ 787,883	\$ 6,308,496	\$ 6,833,791

See notes to financial statements.

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 1 – Summary of significant accounting policies

Nature of the organization – Children, Incorporated (the “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.

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

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.

Unconditional promises to give – Unconditional promises to give are recorded as receivables and revenue when received, and allowances are provided for amounts estimated to be uncollectible. The allowance is based on prior years’ experience and management’s analysis of specific promises made.

Investments – Investments in marketable securities with readily determinable fair values 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.

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.

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 1 – Summary of significant accounting policies (concluded)

Property and equipment – All acquisitions of property and equipment in excess of \$250 are capitalized. Property and equipment are carried at cost or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporarily restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated materials and services – Donated materials and services are reflected as contributions in the accompanying statements at their estimated value at date of receipt. During 2010, volunteers donated significant amounts of their time to the Organization. Although no amounts have been reflected in the statements because they did not meet the criteria for recognition under generally accepted accounting principles (GAAP) the estimated hours for donated services are as follows:

<u>Program</u>	<u>Hours</u>
Spanish translations of project correspondence by university students	862
Volunteer coordination of all 338 field projects that support children	6,288

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.

Management has evaluated the effect of new guidance surrounding uncertain tax positions that became effective this year and concluded that the Organization had no significant financial statement exposure to uncertain tax positions at June 30, 2010.

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.

Fundraising advertising – Fundraising advertising costs are expensed the first time the advertising takes place. Total advertising costs for the years ended June 30, 2010 and 2009 were approximately \$185,000 and \$240,000 respectively.

Comparative information – 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 June 30, 2009, from which the summarized information was derived.

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 2 – Investments

Investments at June 30, 2010 and 2009 consisted of the following:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Money market	\$ 520,500	\$ 520,500	\$ 34,582	\$ 34,582
Mutual funds - fixed	1,015,480	1,129,291	1,567,109	1,611,827
Real asset funds	14,606	17,552	-	-
Total investments	\$ 1,550,586	\$ 1,667,343	\$ 1,601,691	\$ 1,646,409

Investment income for the years ended June 30, 2010 and 2009 consisted of the following components:

	2010	2009
Interest and dividend income	\$ 48,912	\$ 105,003
Realized/unrealized gains (losses)	214,988	(656,552)
Management fees	(11,319)	(48,324)
Total investment income	\$ 252,581	\$ (599,873)

Note 3 – Unconditional promises to give

Unconditional promises to give at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Receivable in less than one year	\$ 363,323	670,930
Less allowance for uncollectible promises	18,193	36,315
Net unconditional promises to give	\$ 345,130	\$ 634,615

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 4 – Property and equipment

Property and equipment at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Land	\$ 279,621	\$ 279,621
Building	1,123,053	1,123,053
Furniture and equipment	415,776	341,135
Total property and equipment	1,818,450	1,743,809
Less accumulated depreciation	375,298	302,178
Property and equipment, net	\$ 1,443,152	\$ 1,441,631

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, 2010 and 2009. Amortization on the capitalized equipment has been included in depreciation and amounted to \$6,216 and \$6,438 at June 30, 2010 and 2009, respectively. Depreciation expense was \$80,203 and \$74,293 for the years ended June 30, 2010 and 2009, respectively.

Note 5 – Temporary restricted net assets

Temporarily restricted net assets are available for the following purposes or periods as of June 30:

	2010	2009
Sponsorships	\$ 1,134,658	\$ 1,238,573
Trust and education	1,175,020	1,170,849
Children in specific regions	7,587	2,407
Clothing and supplies	92,312	54,822
Disaster and emergency	28,043	10,355
Special projects	151,231	120,132
Other child care	71,345	69,980
Total temporarily restricted net assets	\$ 2,660,196	\$ 2,667,118

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 5 – Temporary restricted net assets (concluded)

Temporarily restricted net assets were released from restriction for the following purposes or periods during the years ended June 30:

	2010	2009
Time restrictions expired:		
Sponsorships	\$ 2,952,623	\$ 4,271,595
Designated funds	915,612	950,382
Total time restrictions expired	<u>3,868,235</u>	<u>5,221,977</u>
Purpose restrictions accomplished:		
Commodity gifts	294,548	293,396
Trust and education	72,433	76,311
Children in specific regions	19,272	4,096
Clothing and supplies	22,675	55,327
Disaster and emergency	249,636	12,936
Special projects	122,142	81,722
Other child care	4,989	115,845
Total purpose restrictions accomplished	<u>785,695</u>	<u>639,633</u>
Total restrictions released	<u>\$ 4,653,930</u>	<u>\$ 5,861,610</u>

Note 6 – Board designated net assets

The Board designates a portion of its funds to provide Christmas gifts to children each year. Unrestricted designated funds to provide Christmas gifts totaled \$99,262 and \$96,000 as of June 30, 2010 and 2009, respectively.

Note 7 – Endowment

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 Uniform Prudent Management of Institutional Funds Act ("the Act") 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.

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 7 – Endowment (continued)

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 the Act.

In accordance with the Act, 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, 2010 and 2009 follows:

	2010	2009
Donor-restricted endowment fund:		
Permanently restricted	\$ 100,000	\$ 100,000
Unrestricted (fair value below amount to be retained)	(17,846)	(17,366)
	\$ 82,154	\$ 82,634

The change in endowment fund for the years ended June 30, 2010 and 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, June 30, 2008	\$ -	\$ 8,809	\$ 100,000
Investment return			
Investment income	-	2,685	-
Net depreciation (realized and unrealized)	(17,366)	(11,494)	-
Endowment net assets, July 1, 2009	(17,366)	-	100,000
Investment return			
Investment income	-	-	-
Net depreciation (realized and unrealized)	(480)	-	-
Endowment net assets, June 30, 2010	\$ (17,846)	\$ -	\$ 100,000

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 7 – Endowment (concluded)

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 the Act 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 \$17,846 and \$17,366 as of June 30, 2010 and 2009 respectively. This deficiency resulted from unfavorable market fluctuations that occurred during the years ended June 30, 2010 and 2009.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for sponsorship 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 objective 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.

Note 8 – Capital lease obligation

The Organization leases two copiers under a lease agreement that is set to expire in June 2013. The following is a schedule by years of future minimum lease payments required under this lease, as of June 30, 2010:

Year ending June 30,	\$ 7,009
2011	7,009
2012	7,008
2013	<u>21,026</u>
Total future minimum lease payments	<u>(1,061)</u>
Less amount representing interest	<u>\$ 19,965</u>
Present value of minimum lease payments	

Interest paid and expensed under these leases was \$792 and \$1,000, respectively, for the years ended June 30, 2010 and 2009.

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 9 – Fair value measurements

Effective July 1, 2008, the Organization adopted an accounting standard that establishes a framework for measuring fair value, clarifies the definition of fair value within that framework and expands disclosure requirements regarding the use of fair value measurements.

Accounting standards establish a three level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities traded in active markets.

Level 2 -- Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 -- Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Organization determines fair value based on 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. In determining fair value the Organization uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization has evaluated the various types of investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based on trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. As of June 30, 2010 and 2009, the Organizations investments of \$1,667,343 and 1,646,409, respectively, are determined to be Level 1 investments due to the observability of the unadjusted prices in active markets for identical assets.

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 \$31,712 for the year ended June 30, 2010 and \$38,419 for the year ended June 30, 2009.

Note 11 – Concentration of credit risk

The Organizations places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2010, uninsured checking account balances totaled \$205,389 and uninsured money market accounts totaled \$270,500.

CHILDREN, INCORPORATED

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 12 – Subsequent events

The Organization has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2010 financial statements through December 3, 2010, the date the financial statements were available to be issued.

Supplemental Information

CHILDREN, INCORPORATED

Schedule of Potential Annual Sponsorship Revenue June 30, 2010 (Unaudited)

As of June 30, 2010, the Organization had obtained 12,881 sponsorships. Assuming all sponsorships continue at current rates during the coming year, potential annual revenue will be \$4,113,180 as indicated in the following tabulation:

<u>Number of Sponsors</u>	<u>Annual Rate</u>	<u>Potential Revenue</u>
1	120	\$ 120
10	144	1,440
73	180	13,140
1	192	192
349	216	75,384
82	240	19,680
674	252	169,848
5	276	1,380
1,906	288	548,928
249	300	74,700
9,283	336	3,119,088
248	360	89,280
<u>12,881</u>		<u>\$ 4,113,180</u>



December 3, 2010

To the Board of Directors
Children, Incorporated

In planning and performing our audit of the financial statements of Children, Incorporated (the "Organization") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Organization's internal control to be a material weakness:

Review and approval of journal entries

During the course of our audit procedures, CBH identified several adjustments that were material, both individually and in the aggregate, to the financial statements. The adjustments related to journal entries recorded to the incorrect accounts as well as several year-end financial statement closing entries not recorded by the Organization. The Organization's internal controls include various periodic reviews of financial results; however, there is a lack of controls over the review and approval of journal entries, which resulted in these adjustments. The fact that several material adjustments were identified is an indication that this control deficiency is considered a material weakness in internal controls.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Organization's internal control to be a significant deficiency:

Sponsorship database management

The Organization's tracking and recording of sponsorships and the related revenue is dependant upon the accurate tracking and reporting of data within the related sponsorship database. The Organization's internal controls do not include controls over the appropriate approval and testing of database changes. In addition, certain risks are evident due to a lack of segregation of duties in the operations of the sponsorship database and on-line payment system. The fact that there is a more than remote chance

Board of Directors
Children, Incorporated
Page 2

that changes could occur that would have a more than inconsequential impact on the financial statements is considered to be a significant deficiency in internal control.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

December 3, 2010

Children, Incorporated
Response to Deficiency Letter sent to the CI Audit Committee
Policies and Procedures to be Implemented Immediately
December 23, 2010

The scope of the FY2010 audit conducted by Cherry, Bekaert and Holland, included a comprehensive review of the current practices and procedures for recording financial information. Prior to the engagement of CBH, Children, Incorporated had used the same audit firm for forty years. One purpose for engaging a new audit firm was to ensure that financial and database practices and procedures are being conducted according to generally accepted accounting procedures. It is considered a nonprofit management best practice to request proposals for audit services every three to five years to ensure the external audit firm is reviewing all financial aspects of the organization thoroughly, and to uncover any issues that need resolution.

As a result of the review, CBH provided Children, Incorporated with a deficiency letter which outlined various deficiencies in recording both in the financial records and in the database. The purpose of this document is to respond to the deficiency letter.

1. End of year journal entries were not recorded prior to the field audit.

Answer: Children, Incorporated staff had not previously been responsible for recording end of year journal entries. This had been completed by the external auditors.

Procedural change recommended: The Finance Director will perform all end of year journal entries going forward, and will present all such journal entries to the President and CEO for approval prior to recordation. Documentation and back-up of the end of year journal entries will be maintained for the external audit firm.

2. Certain journal entries of a material level were recorded incorrectly.

Answer: Three separate Finance Directors worked for Children, Incorporated in FY2010. Each of these individuals recorded journal entries in the general ledger. No one on staff was responsible for approving journal entries above a threshold level.

Procedural changes recommended: All journal entries whose aggregate amount exceeds a threshold level will be approved by the President & CEO, who will initial such journal entries. Appropriate documentation and back-up of these journal entries will be maintained for the external audit firm. Entries will include the following as a minimum:

- All payroll journal entries
- All reconciliations of the investment portfolio
- All journal entries exceeding a \$10,000 balance.

In addition, the President and CEO will receive a monthly closing entry spreadsheet and trial balance to review and approve as a means of ensuring all recurring journal entries are recorded.

3. CI's internal controls do not include controls over approval and testing of database changes.
Answer: The IT staff person has been the only person who could make changes to the database, thus making the database vulnerable to mistakes or even fraud. Steps were taken in the summer of 2010 to train additional staff members to have access to the back office and reporting

functions of the database, but the training was never completed. Since then, the Board has authorized the formation of a task force which has reviewed dozens of external database options to replace the database we currently have. Proposals are being obtained from three companies who have developed web based databases that appear to be appropriate for CI. The basic proposals will be reviewed by the CEO and submitted to the Board of Directors in January for their consideration. We anticipate moving to a new database within the next 12 months.

Children, Incorporated

Income Statement for the Si

	ESTIMATED		
	Percent	Variance Budgeted	Unrestricted
Ordinary Income/Expense			
Income			543,782
Total 300.00 · General Gifts & Sponsorship	-15.39%	(374,723)	
301.10 · Special Funds Gifts (temp. restricted)	254.09%	295,345	6,121
305.00 · Bequests (unrestricted)	-87.76%	(43,879)	
305.00 · Bequests (permanently restricted)		122,236	
302.00 · Designated Fund Gifts (temp. restricted)	26.33%	(4,506)	
303.00 · Commodity and In-Kind Gifts (temp. restricted)	-3.21%	11,091	
Various - Other Income (temp. restricted)	25.33%		
Total Income	3.86%	125,352	549,903
Cost of Goods Sold			
400 · Subsidy (Sponsorship Expense)	5.65%	67,081	
Total 401 · Special Gifts- Restricted	-42.96%	(67,071)	
402 · Designated Funds (100%)	20.44%	108,848	
403 · Commodity Gifts (100%)	-3.21%	(4,504)	
Various - Other	-37.65%	(38,588)	
Total COGS	3.10%	65,766	549,903
Gross Profit			
Expense			603,015
Total 420.00 · Salaries	-4.52%	(28,562)	58,924
Total 421.00 · Employee Benefits	-15.01%	(10,406)	50,398
Total 422.00 · Payroll taxes	4.63%	2,230	80,236
Total 423.00 · Office Expenses	-15.13%	(14,299)	25,158
Total 424.00 · Occupancy Exps- Rent/Utils etc	13.24%	2,941	46,035
Total 425.00 · Legal/Audit/Insur/Reportg Exps	-9.42%	(4,790)	1,063
426.00 · Board Meeting Expenses	-5.36%	(60)	83,904
Total 427.00 · Marketing Expenses	-28.29%	(33,096)	20,105
Total 428.00 · Travel & Meeting Expense	-29.21%	(8,298)	30,000
430.00 · Depreciation	0.00%	-	20,869
Total Child Care Activities		(10,630)	
5999 · Bad Debts	-100.00%	(83)	-
Total Expense	-9.34%	(105,052)	1,019,707
Total Operating Income	-3103.69%	164,638	(469,804)
Total 324.00 · Investment Income	9.95%	4,975	54,974
325.00 · Other	0.00%	29,461	29,461
Total 325.00 · Genl Fund Income from Inves.	68.87%	34,436	84,435
Net Income	-359.96%	199,074	(385,369)

x Months Ending December, 2010

		UNAUDITED		Year to Date			
Temporarily Restricted	Permanently Restricted	Actual	Budget	Prior Year	Variance Prior Year	Percent	
		2,059,604	2,434,327	2,043,060	16,544	0.81%	
1,515,822		411,579	116,234	291,086	120,493	41.39%	
411,579		6,121	50,000	20,820	(14,699)	-70.60%	
	119,788	119,788	-	621,183	(34,621)	-5.57%	
586,562		586,562	464,326	144,934	(9,060)	-6.25%	
135,874		135,874	140,380	79,348	(24,468)	-30.84%	
54,880		54,880	43,789				
2,704,717	119,788	3,374,408	3,249,056	3,200,431	(48,625)	-1.52%	
		1,254,581	1,187,500	1,167,790	86,791	7.43%	
1,254,581		89,043	156,114	158,306	(69,263)	-43.75%	
89,043		641,348	532,500	675,809	(34,461)	-5.10%	
641,348		135,874	140,378	144,934	(9,060)	-6.25%	
135,874		63,912	102,500	94,959	(31,047)	-32.70%	
63,912		2,184,758	2,118,992	2,241,798	122,806	5.48%	
2,184,758							
519,959	119,788	1,189,650	1,130,064	958,633	231,017	24.10%	
		603,015	631,577	719,983	(116,968)	-16.25%	
		58,924	69,330	95,755	(36,831)	-38.46%	
		50,398	48,168	58,477	(8,079)	-13.82%	
		80,236	94,535	121,546	(41,310)	-33.99%	
		25,158	22,217	31,497	(6,339)	-20.13%	
		46,035	50,825	111,462	(65,427)	-58.70%	
		1,063	1,123	1,254	(191)	-15.23%	
		83,904	117,000	64,233	19,671	30.62%	
		20,105	28,403	36,464	(16,359)	-44.86%	
		30,000	30,000	36,000	(6,000)	-16.67%	
		20,869	31,499	38	20,831		
		-	83	(88)	88	-100.00%	
		1,019,707	1,124,759	1,276,621	(256,914)	-20.12%	
519,959	119,788	169,943	5,305	(317,988)	487,931	-153.44%	
		54,974	49,999	213,218	(158,244)	-74.22%	
		29,461	-	32,190	(2,729)	-8.48%	
		84,435	49,999	245,408	(160,973)	-65.59%	
519,959	119,788	254,378	55,304	(72,580)	326,958	-450.48%	

CHILDREN, INCORPORATED
STATEMENT OF ACTIVITIES
 July 1, 2010 - Dec. 31, 2010

ESTIMATE

Unrestricted	Unrestricted Christmas Payable	Unrestricted Property & Equipment	TOTAL Unrestricted Funds	sponsor- ship & df's	special gifts	T&E	TOTAL temp		Total FY2010
							restricted funds	Restricted	
(834,332)	99,262	1,422,317	687,247	1,031,772	453,402	1,175,020	2,660,194	100,000	3,447,441
543,782			543,782	1,515,992		7,100	1,515,992		1,515,992
6,122			6,122	586,581	411,579		1,005,260	119,788	1,549,042
					135,874		135,874		125,910
					26,459		26,459		135,874
					21,131		21,131		21,131
									84,435
			84,435				2,704,716	119,788	3,432,384
	84,435		634,339	2,102,573	595,043	7,100	(2,184,758)		
				(1,895,929)	(224,917)		519,958		
				206,644	370,126				
	2,184,758		2,819,097						(1,407,536)
	2,819,097								(777,222)

Net Assets 6/30/2010

REVENUES 07/01/2010 thru 12/31/10

sponsorship contributions
 special gifts
 bequests
 commodity gifts
 donor holding
 Emergency funds
 investment income

TOTAL REVENUES

Total Rev. Released fr Restriction
 balance

EXPENSES

Child Care Program
 commodities & DF
 Supporting Services
 Fundraising
 Management & General
 Total Supporting Services

TOTAL EXPENSES

change in Net Assets:

Net Assets 6/30/10:

Updated Net Assets 12/31/2010

The prepaid sponsorship amount (\$1,254,581) that is shown as released from restriction is an ESTIMATE taken from the amount expensed to date. The membership has to be adjusted annually and may increase OR decrease the actual amt. released from restrictions. The restriction by about \$39,000.

SG that	cannot release from restriction:	
	Pokerstars	\$241,851.00
	BC	\$98,141.99
	Bambu	\$20,254.02
	all other	#####
	subtotal:	\$ 21,131.00
Emergency Funds not expended: (cannot release)	TOTAL:	\$381,378.01
	can release (expended)	total:
		\$(89,043.00)
		-\$89,043.00

Children, Incorporated
Balance Sheet
As of December 31, 2010

Dec 31, 10

ASSETS

Current Assets

Checking/Savings

Cash and Cash Equivalents

Total Cash and Cash Equivalents

\$ 756,385

Total Checking/Savings

\$ 756,385

Total Accounts Receivable

\$ 144,429

Other Current Assets

Total 130.02 · Employee/ Misc Rcvbles

\$ 2,540

Total 130.00 · Advances Rcvble

\$ 1,428

138.00 · Interest Rcvble

\$ 2,808

Total 143.00 · Prepaid Exps.

\$ 53,573

Total Other Current Assets

\$ 57,809

Total Current Assets

\$ 958,623

Total Fixed Assets

\$ 1,419,130

Other Assets

Total 146.00 · Investments

\$ 1,883,090

TOTAL ASSETS

\$ 4,260,843

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Total Accounts Payable

\$ 566,885

Total Other Current Liabilities

\$ 91,039

Total Liabilities

\$ 657,924

Equity

252.00 · PrePaid Sponsrshp

\$ 1,031,772

251.00 · Trust & Educ. Fund

\$ 1,175,020

280.00 · Genl Fund (Unrestricted)

\$ (834,232)

283.00 · Restricted Special Gifts Fund

\$ 453,402

286.00 · Prop & Equip Fund

\$ 1,422,317

290.00 · Perm Rest Net Assets Turock

\$ 100,000

390 · Unallocated Income

\$ 262

Net Income

\$ 254,378

Total Equity

\$ 3,602,919

TOTAL LIABILITIES & EQUITY

\$ 4,260,843

QUESTION	RESPONSE	TALLY	COMMENTS
What would you preserve about CI?	High touch between donor & child; 1 to 1 connection with child	9	
	Dedicated staff responsive to donors and children	6	
	Committed and involved board	3	
	Small size and agility of organization	2	
	Keep the sponsorship model	3	
	Publicize the success of graduates	1	
	Willingness to self-criticize	1	
	Keep the renewal process going	1	There is new energy and enthusiasm, want to keep it going
	Offering an option to sponsor US children	1	
	Example of Marian Cummins putting org above self	1	
	Reputation worldwide- time tested	1	Don't want to become the animal no one understands

Question	Responses	Tally	Comments
What is your vision for CI: what would you like CI to be in one year?	Financially stable; in sound financial condition	9	Even if not listed as part of vision, every board member brought this up
	Organization have a refined value proposition	2	
	CI to have a higher local profile	2	
	Reverse decline in child sponsorship; improve child sponsorship	2	
	Find new ways to help children	1	Show children receiving CI support as happy; children not on CI support as sad instead of other way around
	Develop fundraising in major cities	1	
	Think bigger	1	
	Stay true to the mission	1	Make this a happy place because of the good we're doing rather than a sad place because all we focus on is how much there is to do
	Develop better, more efficient management	1	Make things happen by design, not by accident

One Change

- Staff bring recommendations to Board rather than ask Board for recommendations
- Sell the building and go to a lower rent area (Two responses)
- Find an angel
- Use the resources of universities for outreach and support (2 responses)
- Develop a stronger board
- Make some staff changes
- Use Magic Jack phones!
- Improve the website
- Make the ask of potential donors
- Develop an endowment
- Find ways to differentiate CI programs; better branding and marketing (2 responses)
- Use the Strategic Plan as a roadmap for the growth and development of the organization

**CHILDREN, INCORPORATED
PROPOSAL FOR NEW DATABASE AND INTEGRATED WEBSITE
STAFF RECOMMENDATIONS**

PHASE I: Website, Database and IT Upgrades

Staff has conducted a thorough review of our current database needs and has contacted every major vendor of databases in the country, including all that we could find that offer a "child sponsorship module." Only one company has considerable experience in this technology with organizations that are of similar size to Children, Incorporated. Another company has experience with this technology, but only with extremely small non-profits (less than 100 sponsored children). A third company, Blackbaud, has almost completed a custom child sponsorship module integration for Plan, a very large sponsorship organization.

It should be noted that most all nonprofit database developers now utilize cloud technology for their systems. The three we have considered use this technology, meaning there is monthly Maintenance fee for usage instead of having the data reside on a server within our offices.

Recommendation: Contract with eTapestry, the company with considerable experience in building child sponsorship modules, to build a new database for Children, Incorporated.

Costs: Up-front costs to convert current data, build ecommerce and shopping carts, provide web access portal for sponsors (and eventually volunteer field personnel), work with CI's web developer to fully integrate the new database with the new back office functions of the website, and train our staff on usage.

\$75,176 (does not include allowance)
-\$20,593 discount if contract signed by 1/28/2011

\$53,583 + 20% allowance for unforeseen problems = \$64,300

Annual maintenance includes access to up to 150,000 records, access for all existing staff to the database, provision of firewalls, security systems, set up and maintenance of the external log-in feature, email integration, highest level (available) reporting for staff, ability to segment donations, shopping cart with full security, PCI compliance, third party processor (additional fees for processing credit cards are not included – they are charged by the processor), unlimited telephone support and annual training agreement.

\$42,512

Website Development

In order for the new database to work properly with the public website, a logic model has to be created for the website so that it works efficiently, and makes sense to anyone wanting to make contributions and/or access information on their sponsored child. Our website developer, Punch,

is in the process of designing the logic model, which is necessary to make our website user friendly to our constituents. The additional costs of this process will be needed to integrate the new website features with the new database.

Costs: Design -- \$7,200
Project Management -- \$5,100
Programming -- \$8,200
TOTAL: \$20,500

Development of Portal for Project Coordinators in Field:

Input pictures from project site

Correspondence regarding enrollment changes, updates, children leaving project, etc

Submission of financial reports or other requested data

Message board to send stories of the Children, Inc.

Apply for funding from CI (emergency funds, special projects)

Access to common documents (manuals, forms, etc)

Interface to database

Estimated costs: \$10,000 to \$38,000 (still trying to sort this out!)

IT Upgrades – CI has four servers currently. Three are 2005; one is 2009. When the database and the website work is completed, two of the older servers can be decommissioned. At that time the organization may choose to purchase one additional server to be used for email and being off-site back-up, or move all email and files entire to the cloud, only keeping one server on site to house the old database (in case it is needed for archives), or use a combination of one of these choices. The anticipated cost of this project will be –

Costs: \$14,500 plus \$500 monthly maintenance to keep servers in-house, but replace aging equipment and upgrade the Microsoft applications to 2010
OR
\$18,000 plus \$120 monthly use fee to configure & migrate data & files to the cloud; plan involves file clean-up and using the newest server for apps
OR
\$4,000/month to move to a totally virtual network (no upfront costs)

PHASE II: Upgrade to a Professional Accounting System

Staff recommends that after Phase I is completed, the organization should upgrade its accounting system to one that can accurately track grants, can perform cost center accounting functions, and has expanded reporting capabilities.

Cost: \$125,000 up front plus \$18,000/year maintenance (for Financial Edge software)

PHASE III: Purchase of a Monitoring and Evaluation Database (preferably off the shelf)

		Strategic Plan Update		
		Finance	Marketing/Fundraising	Programs/Partnerships
Strategic Recommendation: Fundraising, Development and Marketing	Tactic 1: Create a direct mail campaign		Holiday appeal dropped 11/10- \$22k est	
	Tactic 2: Develop an e-philanthropy campaign		gift catalog, global giving, givarchmond \$3500 est	
	Tactic 3: Target foundations and grants		HSBC, MWW, Verizon and Deep Run	
	Tactic 4: Create an annual fund drive task force		Determining need for Annual Fund	
	Tactic 5: Schedule and promote special events		Reviewing 50 nights of hops initiative working with North American Power, AEON, Nussentials and Imprint Tours in works to begin Id of top donors	
	Tactic 6: Corporate sponsorship and vendor relationships			
	Tactic 7: Planned giving campaign		Brand refreshed 10/10	
	Tactic 8: Ongoing board development		no update	
	Tactic 9: Refresh brand		Putting together committee and pr plan	
	Tactic 10: Local-to-global campaign			
	Tactic 11: Create a 60th anniversary celebration for 2014			
Strategic Recommendation: Sponsor Retention and Growth	Tactic 1: Increased efforts to attract new sponsors		Creation of target kits and new collateral	
	Tactic 2: Address sponsor retention - both current backlog and in the future		Letter and phonathon campaign underway	Restructuring completed, backlog addressed, staff cross-trained, reduced handling time of correspondence by 4 weeks across all areas of sponsorship, still need to improve progress report processing time, need technology to do so.
	Tactic 3: Streamline and improve the sponsorship process		New wireframing online process using all touchpoints, focus monthly feedback	
	Tactic 4: Strengthen sponsor communications			
Strategic Recommendation: Internal Communication, Development and Engagement	Tactic 1: Enact and monitor HR processes	file maintenance, job descriptions, new HR handbook, and EAP done; all policies done except Gift Acceptance; part-time HR person on calendar for next year		
	Tactic 2: Implement new employee development and training initiatives	5 staff completed leadership training, new performance mgmt processes being worked on, staff participating in Q2 in MBTI		
	Tactic 3: Strengthen employee communications	Sr. Management, general staff meetings and team meetings are all being held weekly; public calendar and other mechanisms for streamlining internal communications in process		All members of program team have spent time at project sites since restructure with a regular schedule of opportunities available to drive engagement
	Tactic 4: Improve coordinator and employee awareness of project activity			
Strategic Recommendation: Board Development and Growth	Tactic 1: Increase focus on Board development and growth			
Strategic Recommendation: Organizational Metrics and Assessment	Tactic 1: Implement a rapid assessment of existing programs and activities			Tool developed, implemented, with response rate of 64.7% from all projects. Data synthesis will be completed by Feb 16th, 2011.
	Tactic 2: Implement a community needs assessment			Tool developed, implemented, with response rate of 70% from all projects. Data synthesis will be completed by Feb 16th, 2011.
	Tactic 3: Design and implement long-term outcomes based strategy			Utilizing Access 2003 as database for M&E at this time. Need to upgrade Access version. Will use this database to learn what we capabilities we will need from a customized database in the future. Identified 3 key program areas Education, Health, Livelihoods as areas to focus resources and start collecting data around.
Strategic Recommendation: Project Management	Tactic 1: Improve project performance and communications			Developed a set of policies and procedures for subsidy usage, child enrollment criteria, sponsor correspondence requirements, project financial reporting, and all new project documents for child enrollment and progress reports.
	Tactic 2: Increase project accountability and effectiveness			Completely revised coordinator manual rearing completion to be rolled out starting in Feb 2011. Drastically increased project communications through telephone and email to have an increased presence within each site. Training for all American Indian coordinators completed in Oct 2010. D.C. wide training scheduled for March 2011.
	Tactic 3: Build and strengthen the technology infrastructure of every project			Changing internal processes to prepare for technological improvements allowing coordinators to download and enter their own project information. The online portal would allow for the reduction of 5 full-time staff members to 2 when fully utilized. It would also decrease the response time between project and sponsors from approx. 6 weeks to 7-10 days. Reduce the cost of mailing subsidy documents, enrollment forms and progress reports by 100%.
Strategic Recommendation: Long-Term Program Development	Tactic 1: Program Guidelines			
	Tactic 2: Partnership strategies and guidelines			We are currently developing a list of evaluation criteria for all of our project locations. From that we will determine where to contract and expand in order to improve our efficiencies and achieve economies of scale at each location so we can have a deeper impact.
	Tactic 3: Affiliation strategies and guidelines			
	Tactic 4: benchmarking and peer relationship strategies and initiatives			
	Tactic 5: Looking around the corner at what's next			
				The 1 year program strategy is underway and will be completed within 30 days.

**Strategic Plan timeline
January - December 2011
Programs/ Partnerships**

Responsibilities for Sponsor Retention and Growth

Tactic 3: Streamline and improve the sponsorship process

- Technological improvements that allow the project coordinators to log in to our site remotely and enter their own enrollment forms, progress reports, download pictures, access subsidy documentation, submit financial statements and project updates as needed should be live by August 2011.
- Roll-out and training for all projects completed by April 2012 for all projects, with the intent that 85% of all internet capable projects are utilizing the system to submit documentation and receive subsidy materials by December 2012. Providing subsidy electronically to internet capable projects will begin in April 2011.
- We are planning to pilot a sponsor- child email correspondence program in August 2011 at a select number of project sites around the world to reduce the correspondence time from weeks or months to less than one week.

Internal Communications, Development, and Engagement

Tactic 4: Improve coordinator and employee awareness of project activity

- Established a regular schedule of opportunities for staff to interact with children at our project locations.

Organizational Metrics and Assessment

Tactic 1: Implement a rapid assessment of existing programs and activities

- Data from rapid assessments is going to be synthesized and utilized to help guide budget meetings starting in February, ending prior to the April 2011 board meeting.
- Coordinator communication regarding the impact and results of the assessment data they submitted is scheduled to go out during Q4 of 2010-2011.

Tactic 2: Implement a community needs assessment

- Data from the needs assessments is going to be utilized in Q3 of 2010-2011 as we move toward identifying our organizational metrics.
- Identify a process for improving this tool for implementation on an annual or biannual basis moving forward.

Tactic 3: Design and implement long-term outcomes based strategy

- We are utilizing the next 18 months as an exploratory period in which to determine precise database needs for synthesizing, reporting, storing, and sharing sponsorship and program related monitoring and evaluation data.
- Following that period we will most likely engage in the creation of a customized database for this purpose perhaps by Q1 2012-2013. .
- Development of organizational metrics will be completed during Q3 , 2010-2011 with a report out to the Board for final review.
- From the list of indicators, we will then move on to creating coverage tables that will enable us to communication, collect, and track the data related to each performance area. This will be completed during the Q4 of 2010-2011.

- A process to evaluate and timetable to collect coverage table data will be completed by Q1, 2011-2012.
- Completed coverage table roll-out and implementation at project level by Q1 2012-2013.

Project Management

Tactic 1: Improve project information and communications and Tactic 2: Increase project accountability and effectiveness can be combined.

- Most value added training opportunities for coordinators in the near term are:
 - Roll-out of coordinator manual thoroughly explaining all of our changes, expectations, requirements, support, forms.
 - Technology options such as sponsor communication email pilots and coordinator access to our database for entering child enrollment, financial reporting, and progress report information from the field.
 - Child protection policy training

These can all be implemented by Q2, 2011-2012.

- Development of project evaluation criteria is underway. The desire is to have a list of criteria that can be utilized across all project sites to establish project performance and effectiveness. This will be completed and projects will be evaluated based on internal data and ongoing communications by Q4, 2010-2011.
- Decisions will be made to determine where contraction and expansion needs to occur over the next year based on things like economy of scale, clustering, geographic location, mission fulfillment, sponsorship attrition risk, starting in Q4 2010-2011, to be completed as early as Q1, 2011-2012.

Tactic 3: Build and strengthen the technology infrastructure of every project

- The tentative date pending Board approval for the new database and website to be operational is by the end of Q4 2010-2011. This will create the online ability for coordinators to access our database and enter their own progress reports, enrollment forms, project updates, submit financial reports and access subsidy documentation.
- A technology study is being devised for roll out in Q4 2010-2011 that will help us identify technology gaps within each of the project locations.

Long-Term Program Development

Tactics 1-5

- Establishment of program guidelines by Q4 2011-2012.
- Implementation of new affiliation strategies by Q2 1011-2012. Exit strategies will need to considered once we determine how we are measuring our success.