

**CHILDREN, INCORPORATED**

FINANCIAL STATEMENTS

Years Ended June 30, 2006 and 2005

# CHILDREN, INCORPORATED

## OFFICERS

William R. Gardner, Jr.  
Chairman of the Board

Richard E. Baltimore  
Vice Chairman

Betty H. Clarke  
Secretary

Anne T. Schaffer  
Assistant Secretary

Timothy E. Carpenter  
Treasurer

Marian G. Cummins  
President and Chief Executive Officer

Peter N. Pastore  
Chief Operating Officer

## OFFICIAL DIRECTORS

Joseph B. Benedetti

H. H. Bode

J. Calvitt Clarke, III

E. Grice Galleher

Thomas J. Lawson

Dana D. McDaniel

William F. Mohr

Richard W. Schaffer

Herman E. Wood, III

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

# CHILDREN, INCORPORATED

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

September 26, 2006

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, 2006 and 2005, 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 generally accepted auditing standards as established by the AICPA's Auditing Standards Board (United States). 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, 2006 and 2005, 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 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 statements, and, accordingly, we express no opinion on it.

The listing of officers and directors following the title page (nonaccounting information), is presented for purposes of additional information and is not a required part of the basic financial statements. The nonaccounting 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, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,094,350	\$ 2,999,736
Investments	3,224,719	3,520,814
Accrued interest receivable	11,078	2,104
Employee receivables	1,849	1,993
Unconditional promises to give	109,493	289,188
Prepaid expenses	31,038	17,573
Deposits	3,050	-
Property and equipment (net of accumulated depreciation)	<u>1,576,672</u>	<u>99,445</u>
<u>TOTAL ASSETS</u>	<u>\$ 6,052,249</u>	<u>\$ 6,930,853</u>

LIABILITIES AND NET ASSETSLIABILITIES

Accounts payable - trade creditors	\$ 20,780	\$ 30,515
Accrued subsidies	691,483	211,889
Accrued salaries and wages	48,080	44,856
Other liabilities	7,130	7,496
Capital lease obligation	14,304	18,616
Accrued benefit liability	<u>-</u>	<u>899,773</u>
<u>Total Liabilities</u>	<u>781,777</u>	<u>1,213,145</u>

NET ASSETS

Unrestricted		
Operating deficit	(1,393,073)	(411,307)
Board designated	1,903,355	2,877,505
Property and equipment	<u>1,576,672</u>	<u>99,445</u>
<u>Total Unrestricted</u>	2,086,954	2,565,643
Temporarily restricted	<u>3,183,518</u>	<u>3,152,065</u>
<u>Total Net Assets</u>	<u>5,270,472</u>	<u>5,717,708</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 6,052,249</u>	<u>\$ 6,930,853</u>

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENTS OF ACTIVITIES

Years Ended June 30, 2006 and 2005

	2006	2005
<b><u>UNRESTRICTED NET ASSETS</u></b>		
Support		
Other contributions	\$ 330,097	\$ 311,451
Bequests	273,412	344,500
Value of donated office space	20,125	60,375
Investment income	112,597	283,356
Gain on sale of equipment	1,835	-
Other income	3,889	305
	741,955	999,987
<u>Total Unrestricted Support</u>		
Net assets released from restrictions	5,834,855	5,538,613
	6,576,810	6,538,600
<u>Total Unrestricted Support and Reclassifications</u>		
Expenses		
Child care program	5,651,817	5,684,558
Fund raising	975,559	956,431
Management and general	428,123	654,199
	7,055,499	7,295,188
<u>Total Expenses</u>		
<u>Decrease in Unrestricted Net Assets</u>	(478,689)	(756,588)
<b><u>TEMPORARILY RESTRICTED NET ASSETS</u></b>		
Sponsorship contributions	4,054,277	3,882,290
Other contributions	1,441,645	1,425,641
Commodity gifts	364,912	351,408
Investment income	5,474	11,205
Net assets released from restrictions	(5,834,855)	(5,538,613)
	31,453	131,931
<u>Increase in Temporarily Restricted Net Assets</u>		
<u>Decrease in Net Assets</u>	(447,236)	(624,657)
<b><u>NET ASSETS</u></b>		
Beginning of year	5,717,708	5,672,276
Minimum pension liability adjustment	-	670,089
End of year	\$ 5,270,472	\$ 5,717,708

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2006 and 2005

	2006	2005
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Decrease in net assets	\$ (447,236)	\$ (624,657)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities		
Depreciation	54,203	24,394
Net loss on disposition of equipment	10,212	4,372
Unrealized loss (gain) on investment securities	89,612	(152,218)
Realized (gain) loss on investment securities	(18,724)	3,416
Donated equity investment securities	(136,076)	-
Pension liability adjustment	-	670,089
Change in operating assets and liabilities		
Unconditional promises to give	179,695	583,980
Accrued interest receivable	(8,974)	1,743
Prepaid expenses and other assets	(16,371)	255,604
Accounts payable and accrued expenses	472,717	34,630
Accrued benefit liability	(899,773)	229,684
<u>Total Adjustments</u>	(273,479)	1,655,694
<u>Net Cash (Used in) Provided by Operating Activities</u>	(720,715)	1,031,037
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of property and equipment	(1,543,477)	(33,255)
Purchase of investment securities	(138,717)	(152,618)
Proceeds from sale of property and equipment	1,835	-
Proceeds from sale of investment securities	500,000	1,504,155
<u>Net Cash (Used in) Provided by Investing Activities</u>	(1,180,359)	1,318,282
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on capital lease obligation	(4,312)	(4,102)
<u>Net Cash Used in Financing Activities</u>	(4,312)	(4,102)
<u>Net (Decrease) Increase in Cash</u>	(1,905,386)	2,345,217
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	2,999,736	654,519
End of year	\$ 1,094,350	\$ 2,999,736

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2006

	Program	Supporting Services		Total Expenses
	Services	Fund	Management	
	Child Care	Raising	and General	
Salaries	\$ 815,780	\$ 203,958	\$ 255,610	\$ 1,275,348
Payroll taxes	63,257	16,486	20,197	99,940
Employee health and retirement	232,293	57,078	57,200	346,571
<u>Total Salaries and Related Expenses</u>	<u>1,111,330</u>	<u>277,522</u>	<u>333,007</u>	<u>1,721,859</u>
Subsidies for children	1,999,647	-	-	1,999,647
Special gifts	1,905,714	-	-	1,905,714
Commodity gifts	364,912	-	-	364,912
Accounting and legal	-	-	18,774	18,774
Advertising	105	556,546	-	556,651
Auto expenses	-	-	899	899
Bank service fees	26,250	-	545	26,795
Conferences and meetings	1,523	586	3,130	5,239
Contract labor	9,414	29,190	12,130	50,734
Depreciation	21,681	21,681	10,841	54,203
Dues and subscriptions	-	-	934	934
Heat, lights and water	4,127	4,396	2,185	10,708
Insurance - general	13,368	13,368	5,885	32,621
Interest	333	333	167	833
Loss on disposition of equipment	4,819	4,819	2,409	12,047
Miscellaneous	7,126	6,673	4,609	18,408
Other supplies	984	1,085	2,386	4,455
Photographs	30	2,623	-	2,653
Postage	97,519	11,561	1,040	110,120
Rental of equipment	945	945	473	2,363
Rental value of donated office space	8,050	8,050	4,025	20,125
Repairs and maintenance - building	2,252	3,013	2,689	7,954
Repairs and maintenance - equipment	8,722	8,691	6,001	23,414
Stationary, printing and office supplies	14,496	14,794	7,494	36,784
Taxes and licenses	5,003	5,003	5,541	15,547
Telephone and cable	5,872	4,680	2,372	12,924
Travel and entertainment	37,595	-	587	38,182
<u>Total Expenses</u>	<u>\$ 5,651,817</u>	<u>\$ 975,559</u>	<u>\$ 428,123</u>	<u>\$ 7,055,499</u>

See accompanying notes

# CHILDREN, INCORPORATED

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2005

	Program	Supporting Services		Total
	Services	Fund	Management	
	Child Care	Raising	and General	
Salaries	\$ 776,032	\$ 217,912	\$ 276,149	\$ 1,270,093
Payroll taxes	61,216	17,648	21,272	100,136
Employee health and retirement	880,732	231,934	265,354	1,378,020
<u>Total Salaries and Related Expenses</u>	1,717,980	467,494	562,775	2,748,249
Subsidies for children	1,872,337	-	-	1,872,337
Special gifts	1,500,244	-	-	1,500,244
Commodity gifts	351,408	-	-	351,408
Accounting and legal	-	-	26,711	26,711
Advertising	-	378,205	-	378,205
Auto expenses	75	-	3,578	3,653
Bank service fees	21,414	-	-	21,414
Conferences and meetings	2,344	65	5,072	7,481
Contract labor	2,267	13,492	10,579	26,338
Depreciation	8,538	8,538	7,318	24,394
Dues and subscriptions	-	-	780	780
Heat, lights and water	6,350	6,350	3,175	15,875
Insurance - general	8,720	8,720	4,360	21,800
Interest	417	417	209	1,043
Loss on disposition of equipment	1,530	1,530	1,312	4,372
Miscellaneous	1,151	234	1,615	3,000
Other supplies	1,090	1,090	545	2,725
Photographs	-	2,576	-	2,576
Postage	87,826	8,927	667	97,420
Rental of equipment	719	719	359	1,797
Rental value of donated office space	24,150	24,150	12,075	60,375
Repairs and maintenance - building	613	613	191	1,417
Repairs and maintenance - equipment	7,828	7,828	2,586	18,242
Stationary, printing and office supplies	26,536	13,397	3,573	43,506
Taxes and licenses	3,963	3,963	4,956	12,882
Telephone and cable	5,453	6,040	1,763	13,256
Travel and entertainment	31,605	2,083	-	33,688
<u>Total Expenses</u>	\$ 5,684,558	\$ 956,431	\$ 654,199	\$ 7,295,188

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.

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 net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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

*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.

### NOTE 2 – INVESTMENTS

Investments at June 30, 2006 and 2005 consisted of the following:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Certificate of deposits	\$ 32,207	\$ 32,207	\$ 32,207	\$ 32,207
Mutual funds	3,147,056	3,142,903	3,353,539	3,446,435
Corporate stocks	43,725	49,609	43,725	42,172
Total Investments at Cost and Fair Value	<u>\$ 3,222,988</u>	<u>\$ 3,224,719</u>	<u>\$ 3,429,471</u>	<u>\$ 3,520,814</u>

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 – INVESTMENTS (Continued)

Investment income for the year ended June 30, 2006 consisted of the following components:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income	\$ 36,447	\$ 3,852	\$ 40,299
Dividend income	139,815	8,845	148,660
Net realized gains	18,724	-	18,724
Net unrealized losses	<u>(82,389)</u>	<u>(7,223)</u>	<u>(89,612)</u>
 Total Investment Income	 <u>\$ 112,597</u>	 <u>\$ 5,474</u>	 <u>\$ 118,071</u>

Investment income for the year ended June 30, 2005 consisted of the following components:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income	\$ 28,754	\$ 1,708	\$ 30,462
Dividend income	109,763	5,534	115,297
Net realized losses	(3,300)	(116)	(3,416)
Net unrealized gains	<u>148,139</u>	<u>4,079</u>	<u>152,218</u>
 Total Investment Income	 <u>\$ 283,356</u>	 <u>\$ 11,205</u>	 <u>\$ 294,561</u>

### NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Receivable in less than one year	\$ 125,991	\$ 307,584
Less allowance for uncollectible promises	<u>16,498</u>	<u>18,396</u>
 Net Unconditional Promises to Give	 <u>\$ 109,493</u>	 <u>\$ 289,188</u>

**CHILDREN, INCORPORATED**

## NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Deposit on real estate	\$ -	\$ 20,150
Land	279,621	-
Building	1,123,053	-
Automobile	-	20,536
Furniture and equipment	<u>295,005</u>	<u>238,663</u>
Total Property and Equipment	1,697,679	279,349
Less accumulated depreciation	<u>121,007</u>	<u>179,904</u>
 Net Property and Equipment	 <u>\$ 1,576,672</u>	 <u>\$ 99,445</u>

Included in furniture and equipment are two copiers under a capital lease obligation. The gross amount of the leased copiers are \$22,718 at June 30, 2006 and 2005. Amortization on the capitalized equipment has been included in depreciation and amounted to \$7,573 and \$3,786 at June 30, 2006 and 2005, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2006</u>	<u>2005</u>
For periods after June 30, 2006 and 2005	\$ 1,406,774	\$ 1,465,116
Trust and education	1,079,670	929,261
Children residing in specified regions or countries	2,574	55
Warm coat fund	13,556	13,550
Disaster relief and emergency funds	30,123	51,082
Special projects	548,849	635,374
Other child care	87,918	57,627
Building	<u>14,054</u>	<u>-</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 3,183,518</u>	 <u>\$ 3,152,065</u>

**CHILDREN, INCORPORATED**

## NOTES TO FINANCIAL STATEMENTS

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

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

	<u>2006</u>	<u>2005</u>
Time Restrictions Expired:		
Sponsorships	\$ 3,961,600	\$ 3,818,396
Designated funds	<u>1,037,916</u>	<u>822,027</u>
Total Time Restrictions Expired	<u>4,999,516</u>	<u>4,640,423</u>
Purpose Restrictions Accomplished:		
Commodity gifts	364,912	351,408
Trust and education	65,829	49,659
Children in specific regions	10,938	54,946
Warm coat fund	16,650	19,225
Disaster and emergency	37,896	10,384
Special projects	86,525	218,312
Other child care	<u>252,589</u>	<u>194,256</u>
Total Purpose Restrictions Accomplished	<u>835,339</u>	<u>898,190</u>
Total Restrictions Released	<u>\$ 5,834,855</u>	<u>\$ 5,538,613</u>

NOTE 6 – BOARD DESIGNATED NET ASSETS

	<u>2006</u>	<u>2005</u>
Future space acquisition	\$ -	\$ 977,500
Memorials	16,858	13,508
Endowment - proceeds from donation to remain intact indefinitely, with income to be used in Organization's exempt activities	<u>1,886,497</u>	<u>1,886,497</u>
Total Board Designated Net Assets	<u>\$ 1,903,355</u>	<u>\$ 2,877,505</u>

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – CAPITAL LEASE OBLIGATION

The Organization leases two copiers under a lease agreement. The lease terms are for five years. The following is a schedule by years of future minimum lease payments required under this lease, as of June 30, 2006:

Year ending June 30,		
2007	\$	5,145
2008		5,145
2009		<u>5,144</u>
Total future minimum lease payments		15,434
Less amount representing interest		<u>(1,130)</u>
Present value of minimum lease payments	\$	<u><u>14,304</u></u>

Interest paid and expensed under this lease was \$833 and \$1,043 for the years ended June 30, 2006 and 2005, respectively

### NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's financial instruments, none of which are held for trading purposes, include cash and investments. The Organization estimates that the fair value of all financial instruments as June 30, 2006 and 2005 do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

### NOTE 9 – 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. 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 \$33,397 and \$15,726 for the years ended June 30, 2006 and 2005, respectively.

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10 – PENSION PLAN

The Organization had a noncontributory defined benefit pension plan which covered substantially all salaried employees who met certain age and length of service requirements. Retirement benefits were based on the employee's years of service and final average earnings (as defined). The Organization used the services of an independent actuary to make the actuarial calculations.

Effective December 31, 2004, the Organization, with Board of Directors approval, ceased benefit accrual and, effective February 28, 2005, the plan was terminated. The Organization recognized losses relating to the plan termination totaling \$112,582 and \$899,773 for years ended June 30, 2006 and 2005, respectively.

The Organization settled the termination of its pension plan in December 2005, as follows:

Obligations to plan participants settled by:

Purchase of annuity contracts for participants	\$ 1,077,000
Lump sum pay-outs to participants	<u>2,098,943</u>
Total plan termination settlement	<u>\$ 3,175,943</u>

Funds provided by:

Assets available in the plan	\$ 2,161,035
Additional contribution by Children, Inc.	<u>1,014,908</u>
Total plan termination settlement	<u>\$ 3,175,943</u>

*a. Obligations and Funded Status*

The amounts recognized on the balance sheet at June 30, 2005 were as follows:

Prepaid benefit cost (netted with the benefit liability)	\$ 57,667
Accrued benefit liability	<u>(957,440)</u>
Net Amount recognized	<u>\$ (899,773)</u>
Increase in benefit liability	<u>\$ 287,351</u>

The accumulated benefit obligation for the pension plan was \$3,187,117 at June 30, 2005.

**CHILDREN, INCORPORATED**

## NOTES TO FINANCIAL STATEMENTS

NOTE 10 – PENSION PLAN (Continued)*a. Obligations and Funded Status (Continued)*

The funded status at June 30, 2005 was as follows:

Projected benefit obligation	\$ (3,187,117)
Fair value of plan assets	<u>2,287,344</u>
 Funded Status	 <u><u>\$ (899,773)</u></u>

Additional information at June 30, 2005 was as follows:

Net periodic pension cost	\$ 178,601
Employer contributions	-
Benefits paid	234,820

*b. Measurement Date*

July 1, 2004 was used for beginning-of-year determinations for the Organization's fiscal year ending June 30, 2005. Assets and liabilities are adjusted from March 1, 2004 for the Organization's fiscal year ending June 30, 2005.

*c. Assumptions*

Weighted average assumptions used to determine benefit obligations at June 30, 2005 were as follows:

Discount rate	3.50%
Rate of annual compensation increases	0.00%

Weighted average assumptions used to determine net periodic pension cost at June 30, 2005 were as follows:

Discount rate	6.50%
Expected long-term rate of return on plan assets	7.00%
Rate of annual compensation increases	5.00%

# CHILDREN, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10 – PENSION PLAN (Continued)

*d. Plan Assets*

The Organization's pension plan weighted-average asset allocations at February 28, 2005, by asset category were as follows:

Cash	99.91 %
U.S. government securities	<u>0.09</u>
	<u><u>100.00</u> %</u>

The overall investment direction was to maximize the return consistent with the risks that the Organization was willing to accept. For the pension fund, the primary objectives are to obtain a reasonably high level of income and to have long-term growth of principal with emphasis on total return. As of the latest measurement date, plan assets were converted to cash in expectation of settlement of the plan obligations.

The long-term rate of return was determined from expected returns on current investments, adjusted for the plan's historical experience. For the eight years ending February 28, 2005, average return on investments was 5.92%.

*e. Estimated Future Contributions*

The Organization will not make further contributions to this plan.

### NOTE 11 – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in a local bank. Checking account balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2006, uninsured balances totaled \$1,028,292.

### 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.

Prior to occupying its new headquarters building, the Organization occupied part of the home of its former president and international director. No rent was paid by the Organization. A real estate appraiser estimated the approximate fair value of the annual rental to be \$60,375. For the years ended June 30, 2006 and 2005, respectively, the Organization included \$20,125 and 60,375 in contribution and expenses in the statement of activities. The Organization paid its share of utilities, taxes, insurance, and repairs.

**CHILDREN, INCORPORATED**

## SCHEDULE OF POTENTIAL ANNUAL SPONSORSHIP REVENUE

June 30, 2006  
(Unaudited)

As of June 30, 2006, the Organization had obtained 14,778 sponsorships. Assuming all sponsorships continue at current rates during the coming year, potential annual revenue will be \$4,285,380 as indicated in the following tabulation:

<u>Number of Sponsors</u>	<u>Annual Rate</u>	<u>Potential Revenue</u>
1	\$ 120	\$ 120
15	144	2,160
97	180	17,460
1	192	192
533	216	115,128
108	240	25,920
1,377	252	347,004
5	276	1,380
9,478	288	2,729,664
514	300	154,200
2,562	336	860,832
<u>87</u>	<u>360</u>	<u>31,320</u>
<u><u>14,778</u></u>		<u><u>\$ 4,285,380</u></u>