

# **Children International**

Accountants' Report and Financial Statements

September 30, 2011

**Children International**  
**September 30, 2011**

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## Independent Accountants' Report

Board of Directors  
Children International  
Kansas City, Missouri

We have audited the accompanying statement of financial position of Children International as of September 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 International as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

December 6, 2011

**Children International**  
**Statement of Financial Position**  
**September 30, 2011**

**Assets**

Cash and cash equivalents	\$ 4,808,931
Certificates of deposit	46,065
Investments	5,428,253
Gift annuity investments	2,296,477
Pledges receivable	454,968
Assets limited as to use	
Construction escrow account	1,144,325
Board-designated endowment investments	21,344,104
Donor-restricted endowment investments	340,207
Donor-restricted cash and cash equivalents	411,827
Total assets limited as to use	23,240,463
Land, buildings and equipment, less accumulated depreciation of \$16,039,866	20,868,793
Deferred financing costs, less accumulated amortization of \$7,009	228,973
Other assets	2,736,204
Total assets	\$ 60,109,127

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued liabilities	\$ 3,657,995
Liabilities under contracts and agreements	
Gift annuity funds	1,475,232
Deposit plan funds	24,650
Bonds payable	10,125,000
Total liabilities	15,282,877

**Net Assets**

Unrestricted	
Board-designated endowment	21,344,104
Undesignated	22,275,144
Total unrestricted net assets	43,619,248
Temporarily restricted	866,795
Permanently restricted	340,207
Total net assets	44,826,250
Total liabilities and net assets	\$ 60,109,127

**Children International**  
**Statement of Activities**  
**Year Ended September 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support and Revenue</b>				
Sponsorships and contributions	\$ 95,218,296	\$ 395,404		\$ 95,613,700
Corporate gifts and commodities	58,889,658	-		58,889,658
Legacies and bequests	1,509,805	34,628		1,544,433
Grants and other income, net	374,488	-		374,488
Net assets released from restrictions	251,852	(251,852)		-
	<u>156,244,099</u>	<u>178,180</u>		<u>156,422,279</u>
<b>Expenses</b>				
Program services				
Worldwide program services	<u>128,277,232</u>			<u>128,277,232</u>
Supporting services				
Management and general	9,545,092			9,545,092
Securing financial support	<u>17,306,990</u>			<u>17,306,990</u>
	<u>26,852,082</u>			<u>26,852,082</u>
Total expenses	<u>155,129,314</u>			<u>155,129,314</u>
<b>Public Support and Revenue Over Expenses</b>	<u>1,114,785</u>	<u>178,180</u>		<u>1,292,965</u>
<b>Non-Operating Activities</b>				
Net realized endowment gains	1,110,601			1,110,601
Unrealized loss on investments	(1,479,851)			(1,479,851)
Decrease in actuarial liability for gift annuities	39,346			39,346
Decrease in value of deliverable and non-deliverable forward contracts	<u>(208,263)</u>			<u>(208,263)</u>
	<u>(538,167)</u>			<u>(538,167)</u>
<b>Increase in Net Assets</b>	576,618	178,180		754,798
<b>Net Assets, Beginning of Year</b>	<u>43,042,630</u>	<u>688,615</u>	<u>\$ 340,207</u>	<u>44,071,452</u>
<b>Net Assets, End of Year</b>	<u>\$ 43,619,248</u>	<u>\$ 866,795</u>	<u>\$ 340,207</u>	<u>\$ 44,826,250</u>

**Children International**  
**Statement of Functional Expenses**  
**Year Ended September 30, 2011**

	<b>Program Services</b>		<b>Supporting Services</b>			<b>Total Expenses</b>
	<b>Worldwide Program Services</b>	<b>Management and General</b>	<b>Securing Financial Support</b>	<b>Total Supporting Services</b>		
Financial aid and assistance	\$ 112,122,514	\$ -	\$ -	\$ -	\$ -	\$ 112,122,514
Supplies	100,785	44,793	14,398	59,191	-	159,976
Telecommunications	328,976	80,238	393,166	473,404	-	802,380
Postage and shipping	774,719	1,510,703	1,588,175	3,098,878	-	3,873,597
Occupancy cost	377,394	159,213	53,071	212,284	-	589,678
Equipment maintenance	571,553	219,828	87,931	307,759	-	879,312
Printing and publications	372,831	504,419	1,315,875	1,820,294	-	2,193,125
Professional services	241,612	271,814	90,605	362,419	-	604,031
Transportation	806,685	53,778	35,853	89,631	-	896,316
Training and continuing education	79,299	35,813	12,790	48,603	-	127,902
Advertising and public awareness	-	1,926,239	10,915,353	12,841,592	-	12,841,592
Salaries and wages	8,135,023	2,840,801	1,936,910	4,777,711	-	12,912,734
Employee benefits	1,296,157	452,626	308,609	761,235	-	2,057,392
Payroll taxes	596,954	208,460	142,132	350,592	-	947,546
Bank charges and other	1,093,985	546,994	182,331	729,325	-	1,823,310
Depreciation of buildings and equipment	1,378,745	689,373	229,791	919,164	-	2,297,909
	<u>\$ 128,277,232</u>	<u>\$ 9,545,092</u>	<u>\$ 17,306,990</u>	<u>\$ 26,852,082</u>	<u>\$ -</u>	<u>\$ 155,129,314</u>

**Children International**  
**Statement of Cash Flows**  
**Year Ended September 30, 2011**

**Operating Activities**

Increase in net assets	\$ 754,798
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Increase in unrealized losses on investments	1,479,851
Realized gains on investments	(576,780)
Loss on disposal of fixed assets	383,988
Depreciation and amortization	2,304,918
Changes in	
Interest and dividends receivable	(12,024)
Gift annuity and deposit plan liabilities	(54,938)
Accounts payable and accrued liabilities	(1,411,064)
Donor restricted cash	(26,589)
Other assets	(553,141)
	(553,141)
Net cash provided by operating activities	2,289,019

**Investing Activities**

Changes in construction escrow account	7,515,356
Purchase of investments	(13,474,539)
Sales of investments	12,219,712
Proceeds from sale of equipment	23,426
Purchase of property and equipment	(6,967,717)
	(6,967,717)
Net cash used in investing activities	(683,762)

**Financing Activities**

Payment of bonds payable	(2,375,000)
	(2,375,000)
Net cash used in financing activities	(2,375,000)

**Decrease in Cash and Cash Equivalents**

(769,743)

**Cash and Cash Equivalents, Beginning of Year**

5,578,674

**Cash and Cash Equivalents, End of Year**

\$ 4,808,931

**Supplemental Cash Flows Information**

Acquisition of property and equipment financed by accounts payable	\$ (900,075)
	(900,075)

# **Children International**

## **Notes to Financial Statements**

### **September 30, 2011**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Children International (the Organization) is organized under the Missouri Nonprofit Corporation law, with headquarters in Kansas City, Missouri.

A nonprofit, worldwide humanitarian organization, Children International has been serving poverty-stricken children and their families since 1936. Its mission is to bring real and lasting change to children living in poverty by reducing their daily struggles, investing in their potential and providing them with the opportunity to grow up healthy, educated and prepared to succeed and contribute to society.

##### ***Related Parties***

Children International works in conjunction with overseas organizations and with organizations in the United States to provide assistance to sponsored children. In addition to funding, Children International provides management assistance and oversight to these organizations to ensure they deliver the required benefits.

Children International Community Organization (CICO) was organized in January 2007 to develop, own and operate local community centers that provide social services to impoverished children throughout the world. Children International provides assistance and oversight to CICO along with the other sponsorship organizations serving the local communities.

##### ***Accounting Principles***

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, as well as with the accounting principles outlined in the *Not-for-Profit Organization Audit and Accounting Guide*.

##### ***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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Cash Equivalents***

Cash equivalents consist of demand deposits, money market accounts and other investments with maturities at the date of purchase of three months or less.

# **Children International**

## **Notes to Financial Statements**

### **September 30, 2011**

One of the financial institutions holding the Organization's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

For financial institutions opting out of the FDIC's Transaction Account Guarantee Program or interest-bearing cash accounts, the FDIC's insurance limits were permanently increased to \$250,000, effective July 21, 2010. At September 30, 2011, the Organization's cash accounts exceeded federally insured limits by approximately \$8,000.

#### ***Functional Expenses***

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several programs are allocated on a pro rata basis to the programs they benefit.

#### ***Assets Limited as to Use***

Assets limited as to use include (1) assets restricted by donors, (2) internally designated assets set aside by the Board of Directors in an Endowment Fund over which the Board maintains control and (3) assets restricted for a construction escrow account. The Board-designated endowment assets are to be invested such that the principal and income earned thereon remain intact until such time as the Board authorizes a disbursement from the fund.

#### ***Contributions and Restricted Net Assets***

In order to provide safeguards over receipts, substantially all contributions are received and deposited directly to the Organization's account by an independent banking facility.

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

# **Children International**

## **Notes to Financial Statements**

### **September 30, 2011**

#### ***Advertising and Public Awareness***

Advertising costs are expensed as incurred.

#### ***Investments***

Investments in equity and debt securities are carried at fair value. Investment income, gains and losses are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. Investment income (income, dividends and realized gains/losses) from Board-designated investments is presented as non-operating income in the statement of activities while realized investment income (income, dividends and realized gains/losses) on all other investments is presented as public support and revenue. All unrealized gains/losses on investments are reported as part of non-operating activities.

#### ***Derivative Financial Instruments***

As a strategy to maintain acceptable levels of exposure to the risk of changing future cash flows resulting from currency exchange rate fluctuations, the Organization entered into deliverable and non-deliverable forward contracts for a portion of its future commitments to local foreign Sponsorship Operating Agencies (SOAs). In the non-deliverable forward contracts, the Organization agrees to purchase a fixed amount of a local currency at a future date, which guarantees the total U.S. dollar (USD) and local currency to be exchanged on that date. When the stated future date (settlement date) arrives, the value of the local currency as indicated in the contract is transferred to the SOA. If, on the settlement date, the USD value of the local currency is more than the contract value, the forward agent pays the Organization the difference. If the USD value of the local currency is less than the contract value, the Organization pays the agent the difference.

When entering into a deliverable forward contract, the Organization purchases foreign currency based upon a specified exchange rate to be delivered on a future settlement date. At year-end the Organization reports a receivable for the fair market value of the foreign currency based upon current exchange rates and a liability based on the contracted exchange rate. The difference is reflected in the Statement of Activities as an Increase or Decrease in Value of Deliverable Forward Contracts. By entering into these contracts, the Organization ensures the SOA will receive the contracted local currency amount which, in most cases, approximates their budgeted amounts.

These agreements are recorded at fair value with subsequent changes in fair value included in change in net assets.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

***Land, Buildings and Equipment***

Land, buildings and equipment are stated at cost, less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the respective classes of property. Useful lives of property are as follows: buildings and improvements — 10 to 40 years and equipment — three to 10 years. A summary of activity for the year ended September 30, 2011 is as follows:

	<b>Balance, September 30, 2010</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements</b>	<b>Balance, September 30, 2011</b>
Land and land improvements	\$ 204,032	\$ 1,875	\$ -	\$ -	\$ 205,907
Buildings and equipment	25,874,465	7,865,917	7,925,647	(4,963,277)	36,702,752
Construction in progress	7,925,647	-	(7,925,647)	-	-
	<u>34,004,144</u>	<u>7,867,792</u>	<u>-</u>	<u>(4,963,277)</u>	<u>36,908,659</u>
Less accumulated depreciation	18,297,820	2,297,909	-	(4,555,863)	16,039,866
	<u>15,706,324</u>	<u>5,569,883</u>	<u>-</u>	<u>(407,414)</u>	<u>20,868,793</u>
Net	<u>\$ 15,706,324</u>	<u>\$ 5,569,883</u>	<u>\$ -</u>	<u>\$ (407,414)</u>	<u>\$ 20,868,793</u>

The Organization capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during 2011 was:

Total interest expense incurred on borrowings for project	\$ 448,556
Interest income from investment of proceeds of borrowings for project	<u>(8,889)</u>
Net interest cost capitalized	<u>\$ 439,667</u>

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

**Note 2: Investments**

Investments are stated at fair value as of September 30, 2011. The following identifies the major categories of investments held:

Money market funds and short-term	
U.S. Government obligations	\$ 1,670,388
Money market funds held for construction escrow account	1,144,325
U.S. Government obligations	3,008,213
Corporate bonds	1,774,612
Corporate stocks and mutual funds	18,035,791
Hedge fund of funds	1,797,201
Private equity investment partnerships	1,173,665
Limited partnership	1,949,171
	<hr/>
Total, at fair value	\$ 30,553,366
	<hr/> <hr/>
Total, at historical cost	\$ 29,555,308
	<hr/> <hr/>

Investments are presented in the statement of financial position as follows:

Investments	\$ 5,428,253
Gift annuity investments	2,296,477
Assets limited as to use	
Construction escrow account	1,144,325
Board-designated endowment	21,344,104
Donor-restricted	340,207
	<hr/>
	\$ 30,553,366
	<hr/> <hr/>

Investment return during 2011 consisted of the following:

Endowment interest and dividend income	\$ 524,147
Endowment realized gains	586,454
Total endowment investment gains	<hr/> 1,110,601
Interest and dividend income	88,369
Realized loss, net	(15,531)
Investment management fees and expenses	(8,516)
	<hr/> 1,174,923
Unrealized loss, net	(1,479,851)
	<hr/> <hr/> \$ (304,928)

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

**Alternative Investments**

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at September 30, 2011 consist of the following:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Private equity investment partnerships (A)	\$ 1,173,665	\$ 641,855	10-12 Year Fund Life	-
Hedge fund of funds (B)	1,797,201	-	Quarterly	95 Days
Limited partnership (C)	1,949,171	-	Monthly	30 Days

- (A) The private equity investment partnerships consist of primarily non-marketable investments in various venture capital funds and private partnerships. These funds have a 10-12 year fund life plus the option of extensions.
- (B) The hedge fund of funds and the underlying investments are specialized investment strategies managed by various portfolio managers selected by the fund's general manager. These investments involve unique risks, which may include the holding of illiquid securities and varying degrees of leverage. The Organization's intention in investing in hedge funds is to reduce its overall portfolio volatility. These funds have a one-year lockup period with quarterly liquidity and a 95-day notice.
- (C) The limited partnership is invested primarily in actively traded small and mid-capitalization stocks. These funds can be redeemed monthly and with 30 days' notice.

**Note 3: Bonds Payable**

Bonds payable, due November 1, 2019; semi-annual principal payments beginning February 1, 2012; interest is paid monthly through November 2019, at 4.23%; secured by the building.

\$ 10,125,000

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

Aggregate annual maturities of bonds payable at September 30, 2011 are:

2012	\$ 625,000
2013	640,000
2014	665,000
2015	695,000
2016	725,000
Thereafter	<u>6,775,000</u>
Total	<u><u>\$ 10,125,000</u></u>

**Note 4: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

Pledges receivable	\$ 454,968
Future child sponsorship support	<u>411,827</u>
	<u><u>\$ 866,795</u></u>

Temporarily restricted net assets totaling \$251,852 were released from restriction during the year to construct community centers in program locations and to provide benefits for specific sponsored children.

Permanently restricted net assets of \$340,207 are to be held in perpetuity for ongoing program services. The interest and dividend income is unrestricted.

**Note 5: Benefit Plans**

Children International funds a defined contribution plan for all employees. The Organization's contribution is based on the employee's salary. The total expense for the Plan was \$659,783 for the year ended September 30, 2011.

**Note 6: Corporate Gifts and Commodities**

Corporate gifts and commodities (Gifts) are recorded in accordance with industry standards developed by Accord referred to as the Interagency Gifts in Kind Standards. The Gifts are valued at their estimated wholesale market value at the date of donation. All Gifts are used by Children International in its worldwide program activities.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

**Note 7: Income Taxes**

Children International is an organization described in Section 501(c)(3) of the Internal Revenue Code (Code) and exempt from income taxes under Section 501(a) of the Code. Children International is not a private foundation as described in Section 509 of the Code. Contributions to Children International are deductible to the extent allowed under U.S. tax laws. The Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years ending before 2008.

**Note 8: Endowment**

The Organization's endowment consists of three individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds 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 gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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 donor-restricted endowment funds 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. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

The composition of net assets by type of endowment fund at September 30, 2011 was:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ -	\$ 340,207	\$ 340,207
Board-designated endowment funds	21,344,104	-	-	21,344,104
Total endowment funds	<u>\$ 21,344,104</u>	<u>\$ -</u>	<u>\$ 340,207</u>	<u>\$ 21,684,311</u>

Changes in endowment net assets for the year ended September 30, 2011 was:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 21,241,198	\$ -	\$ 340,207	\$ 21,581,405
Investment return				
Investment gains	1,133,915	-	-	1,133,915
Unrealized investment losses	(1,031,009)	-	-	(1,031,009)
Total investment return	<u>102,906</u>	<u>-</u>	<u>-</u>	<u>102,906</u>
Endowment net assets, end of year	<u>\$ 21,344,104</u>	<u>\$ -</u>	<u>\$ 340,207</u>	<u>\$ 21,684,311</u>

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at September 30, 2011 consisted of:

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 340,207</u>
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The Organization has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment while providing for periodic expenditures from the fund. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Organization's policies, endowment assets are invested in a manner that is intended to produce results that exceed a composite of market indices while assuming a reasonable level of investment risk.

# Children International

## Notes to Financial Statements

### September 30, 2011

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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy (the spending policy) allowing the Board of Directors to appropriate for expenditure each year an appropriate amount of its endowment fund as recommended by the board and officers of Children International. Such recommendations are generally to be made each year in connection with the proposed budget for the following fiscal year. In establishing this policy, the Organization considered the long-term expected return on its endowment.

#### **Note 9: Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, 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. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

#### ***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include fixed income securities and derivative contracts. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include hedge fund of funds and private equity investment partnerships.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2011**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at September 30, 2011:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds and short-term U.S. Government obligations	\$ 1,670,388	\$ 1,670,388		
Money market funds held for construction escrow account	1,144,325	1,144,325		
U.S. Government obligations	3,008,213		\$ 3,008,213	
Corporate bonds	1,774,612		1,774,612	
Corporate stocks and mutual funds	18,035,791	18,035,791		
Hedge fund of funds	1,797,201			\$ 1,797,201
Private equity investment partnerships	1,173,665			1,173,665
Limited partnership	1,949,171		1,949,171	
<b>Total Investments</b>	<b>30,553,366</b>	<b>20,850,504</b>	<b>6,731,996</b>	<b>2,970,866</b>
Deliverable and non-deliverable forward contracts	(142,322)		(142,322)	
Cash equivalents	4,745,614	4,745,614		

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Private Equity Investment Partnerships	Hedge Funds	Total
Balance, October 1, 2010	\$ 959,960	\$ 1,791,593	\$ 2,751,553
Total realized and unrealized net gains/(losses) included in change in net assets	(11,056)	6,732	(4,324)
Purchases	246,145		246,145
Settlements	(21,384)	(1,124)	(22,508)
Balance, September 30, 2011	\$ 1,173,665	\$ 1,797,201	\$ 2,970,866

**Children International**  
**Notes to Financial Statements**  
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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statement of financial position at amounts other than fair value.

***Certificates of Deposit***

The carrying amount approximates fair value.

***Pledges Receivable***

Fair value is estimated based on the present value of the future cash collections.

***Bonds Payable***

Fair value is estimated based on the borrowing rates currently available to the Organization for bank loans with similar terms and maturities.

***Annuities Payable***

Fair values of the annuity and trust obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

***Summary***

The following table presents estimated fair values of the Organization's financial instruments recognized in the accompanying statement of financial position at amounts other than fair value at September 30, 2011.

	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial assets		
Certificates of deposit	\$ 46,065	\$ 46,065
Pledges receivable	454,968	449,143
Financial liabilities		
Bonds payable	10,125,000	10,508,886
Annuities payable	1,475,232	1,475,232

**Note 10: Subsequent Events**

Subsequent events have been evaluated through December 6, 2011, which is the date the financial statements were available to be issued.