

# **Children International**

Accountants' Report and Financial Statements

September 30, 2008



**Children International**  
**September 30, 2008**

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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, 2008, 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, 2008, 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.

/s/ **BKD, LLP**

November 21, 2008

**Children International**  
**Statement of Financial Position**  
**September 30, 2008**

**Assets**

Cash and cash equivalents	\$ 1,269,168
Investments	6,757,826
Gift annuity investments	1,613,292
Pledges receivable	422,832
Assets limited as to use	
Board-designated endowment investments	19,912,594
Donor-restricted cash and investments	594,888
Total assets limited as to use	20,507,482
Land, buildings and equipment, less accumulated depreciation of \$15,158,985	12,252,601
Other assets	1,476,260
Total assets	\$ 44,299,461

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued liabilities	\$ 2,892,568
Liabilities under contracts and agreements	
Gift Annuity Funds	1,377,126
Deposit Plan Funds	32,050
Notes payable	2,226,614
Total liabilities	6,528,358

**Net Assets**

Unrestricted	
Board-designated endowment	19,912,594
Undesignated	16,840,789
Total unrestricted net assets	36,753,383
Temporarily restricted	677,513
Permanently restricted	340,207
Total net assets	37,771,103
Total liabilities and net assets	\$ 44,299,461

**Children International**  
**Statement of Activities**  
**Year Ended September 30, 2008**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Public Support and Revenue</b>				
Sponsorships and contributions	\$ 94,333,607	\$ 194,813		\$ 94,528,420
Corporate gifts and commodities	45,372,250	-		45,372,250
Legacies and bequests	1,130,553	7,794		1,138,347
Grants and other income, net	1,647,144	11,556		1,658,700
Net assets released from restrictions	266,171	(266,171)		-
	<u>142,749,725</u>	<u>(52,008)</u>		<u>142,697,717</u>
<b>Expenses</b>				
Program services				
Worldwide program services	110,107,817			110,107,817
Supporting services				
Management and general	9,543,813			9,543,813
Securing financial support	17,198,994			17,198,994
	<u>26,742,807</u>			<u>26,742,807</u>
Total expenses	<u>136,850,624</u>			<u>136,850,624</u>
<b>Public Support and Revenue Over (Under) Expenses</b>	<u>5,899,101</u>	<u>(52,008)</u>		<u>5,847,093</u>
<b>Non-Operating Activities</b>				
Net realized endowment earnings	1,768,718			1,768,718
Increase in unrealized loss on investments	(7,011,964)			(7,011,964)
Increase in actuarial liability for gift annuities	(164,746)			(164,746)
Decrease in value of non-deliverable forward contracts	(214,169)			(214,169)
	<u>(5,622,161)</u>			<u>(5,622,161)</u>
<b>Increase (Decrease) in Net Assets</b>	276,940	(52,008)		224,932
<b>Net Assets, Beginning of Year</b>	<u>36,476,443</u>	<u>729,521</u>	\$ 340,207	<u>37,546,171</u>
<b>Net Assets, End of Year</b>	<u>\$ 36,753,383</u>	<u>\$ 677,513</u>	<u>\$ 340,207</u>	<u>\$ 37,771,103</u>

**Children International**  
**Statement of Functional Expenses**  
**Year Ended September 30, 2008**

	Program Services	Supporting Services			Total Expenses
	Worldwide Program Services	Management and General	Securing Financial Support	Total Supporting Services	
Financial aid and assistance	\$ 94,539,761	\$ -	\$ -	\$ -	\$ 94,539,761
Supplies	146,665	65,184	20,952	86,136	232,801
Telecommunications	364,119	88,810	435,168	523,978	888,097
Postage and shipping	902,702	1,760,268	1,850,538	3,610,806	4,513,508
Occupancy cost	315,044	132,909	44,303	177,212	492,256
Equipment maintenance	505,919	194,583	77,834	272,417	778,336
Printing and publications	473,032	639,985	1,669,525	2,309,510	2,782,542
Professional services	289,528	325,719	108,574	434,293	723,821
Transportation	798,384	53,226	35,483	88,709	887,093
Training and continuing education	132,790	59,970	21,418	81,388	214,178
Advertising and public awareness	-	1,821,758	10,323,283	12,145,041	12,145,041
Salaries and wages	7,796,164	2,722,470	1,856,230	4,578,700	12,374,864
Employee benefits	1,047,851	365,917	249,488	615,405	1,663,256
Payroll taxes	563,111	196,641	134,074	330,715	893,826
Bank charges and other	592,498	296,249	98,749	394,998	987,496
Depreciation of buildings and equipment	1,640,249	820,124	273,375	1,093,499	2,733,748
	\$ 110,107,817	\$ 9,543,813	\$ 17,198,994	\$ 26,742,807	\$ 136,850,624

**Children International**  
**Statement of Cash Flows**  
**Year Ended September 30, 2008**

**Operating Activities**

Increase in net assets	\$ 224,932
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Increase in unrealized loss on investments	7,011,964
Realized gains on investments	(796,431)
Depreciation	2,733,748
Changes in:	
Interest and dividends receivable	(5,751)
Gift annuity and deposit plan liabilities	209,297
Accounts payable and accrued liabilities	(234,573)
Other assets	7,916
	9,151,102
Net cash provided by operating activities	9,151,102

**Investing Activities**

Purchase of investments	(14,056,683)
Sales of investments	7,045,935
Purchase of property and equipment	(2,884,047)
Proceeds from sale of equipment	9,765
	(9,885,030)
Net cash used in investing activities	(9,885,030)

**Financing Activities**

Principal payments on notes payable	(739,821)
Cancelation of notes payable	(56,000)
	(795,821)
Net cash used in financing activities	(795,821)

**Decrease in Cash and Cash Equivalents**

(1,529,749)

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

2,798,917

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

\$ 1,269,168

**Noncash Investing Activity**

Acquisition of property and equipment financed by accounts payable	\$ 251,432
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# **Children International**

## **Notes to Financial Statements**

### **September 30, 2008**

#### **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 help children living in dire poverty. This is accomplished through the generosity of its contributors by providing children with program benefits and services that meet basic needs, enhance their self-esteem and raise their physical and educational levels in a meaningful, lasting way. Its vision is that each child will grow into a healthy, educated and self-reliant adult.

##### ***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, 2008**

***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 and (2) internally designated assets set aside by the Board of Directors in an Endowment Fund over which the Board maintains control. These 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 reported at the present value of estimated future cash flows.

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.

***Advertising and Public Awareness***

Advertising costs are expensed as incurred.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2008**

***Investments***

Investments in equity and debt securities are carried at fair value. Marketable investments are valued at the last reported market price. Non-marketable securities are valued using quoted market prices for similar securities. 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 Instrument***

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 non-deliverable forward contracts for a portion of its future commitments to local foreign Sponsorship Operating Agencies (SOAs). In the 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. 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.

Because the forward contracts are offsetting risk related to an anticipated future transaction (the future contribution to the SOA), hedge accounting does not apply. As a result, the agreement is recorded at its fair value with subsequent changes in fair value included in change in net assets.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2008**

***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 – 3 to 10 years. A summary of activity for the year ended September 30, 2008 is as follows:

	<b>Balance, September 30, 2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance, September 30, 2008</b>
Land and land improvements	\$ 204,032	\$ -	\$ -	\$ 204,032
Buildings and equipment	24,265,199	3,135,479	(193,124)	27,207,554
	24,469,231	3,135,479	(193,124)	27,411,586
Less accumulated depreciation	12,608,674	2,733,748	(183,437)	15,158,985
Net	<u>\$ 11,860,557</u>	<u>\$ 401,731</u>	<u>\$ (9,687)</u>	<u>\$ 12,252,601</u>

**Note 2: Investments**

Investments are stated at fair value as of September 30, 2008. The following identifies the major categories of investments held:

Certificates of deposit	\$ 1,994,902
Money market funds and short-term	
U.S. Government obligations	2,181,760
U.S. Government obligations	1,784,352
Corporate bonds	1,477,426
Corporate stocks and mutual funds	17,743,587
Government asset backed/collateralized mortgage	
obligation securities	1,116,830
Mortgage-backed securities	292,506
Hedge funds	1,905,360
Private equity investment partnership	322,350
Accrued interest and dividends receivable	59,527
Total, at fair value	<u>\$ 28,878,600</u>
Total, at historical cost	<u>\$ 32,883,003</u>

**Children International**  
**Notes to Financial Statements**  
**September 30, 2008**

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

Investments	\$ 6,757,826
Gift annuity investments	1,613,292
Assets limited as to use	
Board-designated endowment	19,912,594
Donor-restricted	<u>594,888</u>
	<u>\$ 28,878,600</u>

Investment return during 2008 consisted of the following:

Interest and dividend income	\$ 1,134,913
Investment management fees and expenses	(158,044)
Realized gains, net	<u>796,431</u>
	1,773,300
Increase in unrealized loss, net	<u>(7,011,964)</u>
	<u>\$ (5,238,664)</u>

As of September 30, 2008, the Organization's investments include an interest in a fund of hedge funds, which comprises less than 10% of the portfolio. The fair value of this holding represents the amount the Organization expects to receive at September 30, 2008 if it had liquidated its investments in the fund of hedge funds on that date. Since hedge funds do not have a readily ascertainable market value, the Organization values these investments in accordance with valuations provided by a third party administrator and the general partner of the partnership. The Organization's management may consider other factors in assessing the fair value of these investments.

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.

The private equity investment partnership consists primarily of non-marketable investments in various venture capital funds and private partnerships with a total commitment of \$1,000,000. During 2008, the Organization invested \$400,000 in this fund and received distributions totaling \$47,168. The fair value of these investments is based on cost which approximates estimated fair values of the underlying securities.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2008**

**Note 3: Notes Payable**

Note payable, due in monthly payments of \$30,829 through December 2009, with interest payable monthly at 5.78%, secured by equipment.	\$ 442,980
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Note payable, due in monthly payments of \$43,409 through June 2010 with the balance due July 2010, with interest payable monthly at 5.625%, secured by investments.	1,783,634
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\$ 2,226,614

Aggregate annual maturities of notes payable at September 30, 2008 are:

2009	\$ 783,284
2010	1,443,330

\$ 2,226,614

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

Temporarily restricted net assets are available for the following purposes:

Pledges receivable	\$ 422,832
Future child sponsorship support	254,681

\$ 677,513

Temporarily restricted net assets totaling \$266,171 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.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2008**

**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 \$588,318 for the year ended September 30, 2008.

**Note 6: Corporate Gifts and Commodities**

Corporate gifts and commodities (Gifts) are recorded in accordance with industry standards developed by A.E.R.D.O. 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.

**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.

**Note 8: Disclosures About Fair Value of Financial Instruments**

The following methods were used to estimate the fair value of financial instruments.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the fair values shown below may not represent values at which the respective financial instruments could be sold individually or in the aggregate.

**Children International**  
**Notes to Financial Statements**  
**September 30, 2008**

The following table presents estimated fair values of the Organization's financial instruments at September 30, 2008.

	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial assets		
Certificates of deposit	\$ 1,994,902	\$ 1,994,902
Pledges receivable	422,832	422,832
Financial liabilities		
Notes payable	2,226,614	2,372,275
Non-deliverable forward contracts	151,821	151,821

**Securities**

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

**Pledges Receivables**

The fair value of pledges receivable is estimated based on the present value of future cash collections.

**Notes Payable**

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

**Non-deliverable Forward Contracts**

The fair value is estimated by a third party.

**Note 9: Subsequent Events**

Due to unfavorable financial market conditions subsequent to September 30, 2008, the Organization's total investment portfolio decreased approximately 10%, through October 31, 2008.