

CHILDREN, INCORPORATED

Richmond, Virginia

FINANCIAL REPORT

JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children, Incorporated
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Children, Incorporated which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gournt, Hyde & Barbours, P.C.

Richmond, Virginia
November 12, 2015

CHILDREN, INCORPORATED

Statements of Financial Position
June 30, 2015 and 2014

Assets	2015	2014
Cash	\$ 1,106,964	\$ 1,461,305
Marketable securities	3,135,418	3,140,581
Miscellaneous receivable	60	--
Prepaid expenses	8,370	--
Furniture and equipment, net	<u>509,069</u>	<u>446,487</u>
Total assets	<u>\$ 4,759,881</u>	<u>\$ 5,048,373</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 6,642	\$ --
Accrued vacation	12,542	--
Obligation for database development costs incurred	--	10,747
Other	<u>4,940</u>	<u>25,553</u>
	<u>\$ 24,124</u>	<u>\$ 36,300</u>
Net Assets		
Unrestricted	\$ 4,163,410	\$ 4,439,726
Permanently restricted	<u>572,347</u>	<u>572,347</u>
	<u>\$ 4,735,757</u>	<u>\$ 5,012,073</u>
Total liabilities and net assets	<u>\$ 4,759,881</u>	<u>\$ 5,048,373</u>

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statements of Activities
Year Ended June 30, 2015

	2015		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in unrestricted net assets			
Revenues			
Contributions	\$ 3,535,671	\$ --	\$ 3,535,671
Earnings on marketable securities	854	--	854
Total revenues	<u>\$ 3,536,525</u>	<u>\$ --</u>	<u>\$ 3,536,525</u>
Expenses			
Program services	\$ 3,303,691	\$ --	\$ 3,303,691
Administration	337,248	--	337,248
Fundraising	<u>171,902</u>	<u>--</u>	<u>171,902</u>
Total expenses	<u>\$ 3,812,841</u>	<u>\$ --</u>	<u>\$ 3,812,841</u>
Change in unrestricted net assets	\$ (276,316)	\$ --	\$ (276,316)
Net assets, beginning of year	<u>4,439,726</u>	<u>572,347</u>	<u>5,012,073</u>
Net assets, end of year	<u>\$ 4,163,410</u>	<u>\$ 572,347</u>	<u>\$ 4,735,757</u>

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statements of Activities
Year Ended June 30, 2014

	2014		
	Unrestricted	Permanently Restricted	Total
Changes in unrestricted net assets			
Revenues			
Contributions	\$ 4,029,371	\$ --	\$ 4,029,371
Earnings on marketable securities	124,015	--	124,015
Total revenues	<u>\$ 4,153,386</u>	<u>\$ --</u>	<u>\$ 4,153,386</u>
Expenses			
Program services	\$ 3,630,082	\$ --	\$ 3,630,082
Administration	328,197	--	328,197
Fundraising	238,268	--	238,268
Total expenses	<u>\$ 4,196,547</u>	<u>\$ --</u>	<u>\$ 4,196,547</u>
Change in unrestricted net assets	\$ (43,161)	\$ --	\$ (43,161)
Net assets, beginning of year	<u>4,482,887</u>	<u>572,347</u>	<u>5,055,234</u>
Net assets, end of year	<u>\$ 4,439,726</u>	<u>\$ 572,347</u>	<u>\$ 5,012,073</u>

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Functional Expenses
Year Ended June 30, 2015

	<u>Program Services</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Compensation	\$ 499,627	\$ 238,304	\$ 60,784	\$ 798,715
Employee benefits	35,018	16,702	4,260	55,980
Payroll taxes	38,316	18,275	4,661	61,252
	<u>\$ 572,961</u>	<u>\$ 273,281</u>	<u>\$ 69,705</u>	<u>\$ 915,947</u>
Advertising and promotion	--	--	85,629	85,629
Bank and credit card fees	51,377	--	--	51,377
Depreciation	69,432	18,515	4,629	92,576
General insurance	9,871	2,632	658	13,161
Office expenses	34,376	9,167	2,292	45,835
Professional fees	48,787	13,010	3,252	65,049
Rent	46,999	12,533	3,133	62,665
Supplies and services for impoverished children	2,428,529	--	--	2,428,529
Travel	19,592	2,305	1,152	23,049
Other	21,767	5,805	1,452	29,024
	<u>\$ 3,303,691</u>	<u>\$ 337,248</u>	<u>\$ 171,902</u>	<u>\$ 3,812,841</u>

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Functional Expenses
Year Ended June 30, 2014

	<u>Program Services</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Compensation	\$ 496,608	\$ 248,304	\$ 56,069	\$ 800,981
Employee benefits	36,819	18,409	4,157	59,385
Payroll taxes	40,862	20,431	4,613	65,906
	<u>\$ 574,289</u>	<u>\$ 287,144</u>	<u>\$ 64,839</u>	<u>\$ 926,272</u>
Advertising and promotion	--	--	162,536	162,536
Bank and credit card fees	63,011	--	--	63,011
Depreciation	3,527	941	235	4,703
General insurance	12,878	3,434	858	17,170
Office expenses	26,940	7,184	1,796	35,920
Professional fees	33,812	9,016	2,254	45,082
Rent	46,779	12,474	3,119	62,372
Supplies and services for impoverished children	2,826,846	--	--	2,826,846
Travel	21,446	2,523	1,261	25,230
Other	20,554	5,481	1,370	27,405
	<u>\$ 3,630,082</u>	<u>\$ 328,197</u>	<u>\$ 238,268</u>	<u>\$ 4,196,547</u>

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statements of Cash Flows Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (276,316)	\$ (43,161)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	92,576	4,703
Realized and unrealized (losses) gains in investments	5,163	(106,194)
Change in assets and liabilities:		
(Increase) in miscellaneous receivable	(60)	--
(Increase) in prepaid expenses	(8,370)	--
Increase in accounts payable	6,642	--
Increase in accrued vacation	12,542	--
(Decrease) increase in other liabilities	(31,360)	12,093
Net cash (used in) operating activities	<u>\$ (199,183)</u>	<u>\$ (132,559)</u>
Cash Flows from Investing Activities		
Database development	\$ --	\$ (402,504)
Purchase of fixed assets	(155,158)	--
Purchase of marketable securities	<u>--</u>	<u>(16,278)</u>
Net cash (used in) investing activities	<u>\$ (155,158)</u>	<u>\$ (418,782)</u>
Net (decrease) in cash	\$ (354,341)	\$ (551,341)
Cash		
Beginning	<u>1,461,305</u>	<u>2,012,646</u>
Ending	<u>\$ 1,106,964</u>	<u>\$ 1,461,305</u>

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Notes to Financial Statements

Note 1. Nature of Operations

Children, Incorporated is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Its program services consist of arranging and providing funding for supplies and services to meet the basic and educational needs of approximately 20,000 impoverished children in 300 locations, half in the United States and half in other countries.

Program services are provided entirely by volunteers at each location. Funding for supplies and services for impoverished children is transferred from the Richmond office to various organizations that distribute the supplies and services to the children. The volunteers of the organizations decide on the supplies and services needed, arrange for them to be provided, and administer disbursements of the funds. The volunteer staff members are required to retain documentation of the disbursements and provide periodic reports to the paid staff members. Volunteer staff members are periodically visited at their locations by paid staff members.

A summary of program services by location for the years ended June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Program services provided outside the		
United States of America:		
Central America and the Caribbean	\$ 314,761	\$ 374,867
East Asia and the Pacific	161,640	143,824
Middle East and North Africa	33,372	46,752
North America	103,673	79,991
South America	515,652	520,335
South Asia	185,043	195,454
SubSahara Africa	<u>139,505</u>	<u>157,257</u>
	\$ 1,453,646	\$ 1,518,480
Program services provided in the		
United States of America	<u>974,883</u>	<u>1,308,366</u>
	<u>\$ 2,428,529</u>	<u>\$ 2,826,846</u>

CHILDREN, INCORPORATED

Notes to Financial Statements

Note 2. Significant Accounting Policies

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Contributions

Children, Incorporated reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a 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. There were no temporarily restricted net assets as of June 30, 2015 and 2014.

Cash and Cash Equivalents

For purposes of reporting cash flows, Children, Incorporated includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents on the accompanying statement of financial position.

Investments

Children, Incorporated records investments in equity securities at readily determinable fair values and all investments in debt securities are measured at fair market value.

Property, Equipment, and Depreciation

All purchases of property and equipment have been recorded at cost. Depreciation is determined by the straight-line method over the estimated useful lives of the related assets. Depreciation expense for the years ended June 30, 2015 and 2014 was \$92,576 and \$4,703, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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Notes to Financial Statements

Fair Value of Financial Instruments

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

For the fiscal years ended June 30, 2015 and 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

The carrying amounts of the Organization's financial instruments not described above arise in the ordinary course of business and approximate fair value.

CHILDREN, INCORPORATED

Notes to Financial Statements

Note 3. Investments

Long-term investments as of June 30, 2015 and 2014 were as follows:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Money market account	\$ 1,718,482	\$ 1,718,482	\$ 1,683,667	\$ 1,683,667
Mutual funds	<u>1,248,458</u>	<u>1,416,936</u>	<u>1,213,840</u>	<u>1,456,914</u>
	<u>\$ 2,966,940</u>	<u>\$ 3,135,418</u>	<u>\$ 2,897,507</u>	<u>\$ 3,140,581</u>

Note 4. Fair Value Measurements

Children, Incorporated has three portfolios of marketable securities, all of which are maintained by Wells Fargo. The following table presents the balance of financial assets measured at fair value on a recurring basis as of June 30, 2015 and 2014:

	Balance as of June 30, 2015	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Levels (Level 2)	Significant Other Unobservable Levels (Level 3)
	Money market account	\$ 1,670,560	\$ 1,670,560	\$ --
Mutual funds	<u>1,464,858</u>	<u>1,464,858</u>	<u>--</u>	<u>--</u>
	<u>\$ 3,135,418</u>	<u>\$ 3,135,418</u>	<u>\$ --</u>	<u>\$ --</u>

	Balance as of June 30, 2014	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Levels (Level 2)	Significant Other Unobservable Levels (Level 3)
	Money market account	\$ 1,683,667	\$ 1,683,667	\$ --
Mutual funds	<u>1,456,914</u>	<u>1,456,914</u>	<u>--</u>	<u>--</u>
	<u>\$ 3,140,581</u>	<u>\$ 3,140,581</u>	<u>\$ --</u>	<u>\$ --</u>

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Notes to Financial Statements

Note 5. Furniture and Equipment

At June 30, 2015 and 2014, furniture and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Cost	\$ 636,244	\$ 551,077
Accumulated depreciation	<u>(127,175)</u>	<u>(104,590)</u>
	<u>\$ 509,069</u>	<u>\$ 446,487</u>

During the year ended June 30, 2013, Children, Incorporated began developing a database, primarily using a consulting firm under an hour-rate contract. Costs of \$442,249 were incurred under the contract through June 30, 2014. The database was placed in service in June 2015 for costs incurred to date of \$549,156.

Note 6. Permanently Restricted Net Assets

Three contributions made in prior years established permanent endowments: \$100,000 in December 1999; \$119,788 in July 2010; and \$352,559 in January 2012. Correspondence from the donors required Children, Incorporated to establish permanent endowments in the amount of the December 1999 and July 2010 contributions and uses the investment earnings to provide funding for supplies and services for impoverished children.

Note 7. Description of Leasing Arrangements

Children, Incorporated leases its office in Richmond under a year-to-year arrangement that was renewed in August 2014 for monthly rentals of \$4,450 through December 2015. Rent expense under the agreement was \$53,400 for the years ended June 30, 2015 and 2014, respectively. Children, Incorporated also leases office equipment under non-cancelable arrangements.

Note 8. Subsequent Events

Subsequent to year end, Children, Incorporated purchased an office building on October 30, 2015 for \$391,837.

Children, Incorporated has evaluated all subsequent events through November 12, 2015, the date the financial statements were available to be issued. Children, Incorporated has determined there are no other subsequent events that require recognition or disclosure.