CHILDREN, INCORPORATED

Richmond, Virginia

FINANCIAL REPORT

JUNE 30, 2016

CONTENTS

Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

Culpeper Leesburg Middleburg Richmond Winchester

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, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements (collectively, 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.

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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, 2016 and 2015, and the changes in net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Richmond, Virginia
November 10, 2016

CHILDREN, INCORPORATED

Statements of Financial Position

June 30, 2016 and 2015

Assets	**2016**	**2015**
Cash	$ 2,588,035	$ 1,106,964
Investments	2,431,371	3,135,418
Miscellaneous receivable	515	60
Prepaid expenses	6,678	8,370
Furniture and equipment, net	898,736	509,069
Total assets	$ 5,925,335	$ 4,759,881
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 14,797	$ 6,642
Accrued vacation	11,545	12,542
Other	6,420	4,940
	$ 32,762	$ 24,124
Net Assets		
Unrestricted	$ 4,460,006	$ 3,500,380
Temporarily restricted	860,220	663,030
Permanently restricted	572,347	572,347
	$ 5,892,573	$ 4,735,757
Total liabilities and net assets	$ 5,925,335	$ 4,759,881

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Activities
Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets				
Revenues				
Contributions	$ 4,553,766	$ 779,200	$ - -	$ 5,332,966
(Loss) on disposal of fixed assets	(1,160)	- -	- -	(1,160)
Investment income	38,239			38,239
(Loss) on marketable securities	(43,341)	- -	- -	(43,341)
Total revenues	$ 4,547,504	$ 779,200	$ - -	$ 5,326,704
Net assets released from restrictions	582,010	(582,010)	- -	- -
Total revenues, support and other changes	$ 5,129,514	$ 197,190	$ - -	$ 5,326,704
Expenses				
Program services	$ 3,415,670	$ - -	$ - -	$ 3,415,670
Administration	454,321	- -	- -	454,321
Fundraising	299,897	- -	- -	299,897
Total expenses	$ 4,169,888	$ - -	$ - -	$ 4,169,888
Change in net assets	$ 959,626	$ 197,190	$ - -	$ 1,156,816
Net assets, beginning of year	3,500,380	663,030	572,347	4,735,757
Net assets, end of year	$ 4,460,006	$ 860,220	$ 572,347	$ 5,892,573

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Activities
Year Ended June 30, 2015

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Changes in unrestricted net assets				
Revenues				
Contributions	$ 2,872,641	$ 663,030	$ --	$ 3,535,671
Earnings on marketable securities	854	--	--	854
Total revenues	$ 2,873,495	$ 663,030	$ --	$ 3,536,525
Expenses				
Program services	$ 3,303,691	$ --	$ --	$ 3,303,691
Administration	337,248	--	--	337,248
Fundraising	171,902	--	--	171,902
Total expenses	$ 3,812,841	$ --	$ --	$ 3,812,841
Change in net assets	$ (939,346)	$ 663,030	$ --	$ (276,316)
Net assets, beginning of year	4,439,726	--	572,347	5,012,073
Net assets, end of year	$ 3,500,380	$ 663,030	$ 572,347	$ 4,735,757

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Functional Expenses

Year Ended June 30, 2016

	Program Services	Administration	Fundraising	Total
Compensation	$ 576,835	$ 117,506	$ 97,179	$ 791,520
Employee benefits	49,219	10,026	8,292	67,537
Payroll taxes	40,243	8,198	6,780	55,221
	$ 666,297	$ 135,730	$ 112,251	$ 914,278
Advertising and promotion	- -	- -	165,894	165,894
Bank and credit card fees	52,312	- -	- -	52,312
Change in valuation allowance	- -	234,850	- -	234,850
Depreciation	97,522	26,006	6,501	130,029
General insurance	13,926	3,714	928	18,568
Office expenses	52,229	13,928	3,482	69,639
Professional fees	70,220	18,725	4,681	93,626
Rent	24,654	6,574	1,644	32,872
Repairs and maintenance	11,476	3,060	765	15,301
Supplies and services for impoverished children	2,367,501	- -	- -	2,367,501
Software expense	20,760	5,536	1,384	27,680
Travel	27,795	3,270	1,635	32,700
Other	4,108	1,096	274	5,478
Utilities	6,870	1,832	458	9,160
	$ 3,415,670	$ 454,321	$ 299,897	$ 4,169,888

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services	Administration	Fundraising	Total
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
	$ 572,961	$ 273,281	$ 69,705	$ 915,947
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
	$ 3,303,691	$ 337,248	$ 171,902	$ 3,812,841

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	$ 1,156,816	$ (276,316)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	130,029	92,576
Loss on disposal of fixed assets	1,160	- -
Realized (gain) on sale of marketable securities	(45,367)	- -
Unrealized loss on investments	88,708	5,163
Change in assets and liabilities:		
(Increase) in miscellaneous receivable	(455)	(60)
Decrease (increase) in prepaid expenses	1,692	(8,370)
Increase in accounts payable	8,155	6,642
(Decrease) increase in accrued vacation	(997)	12,542
Increase (decrease) in other liabilities	1,480	(31,360)
Net cash provided by (used in) operating activities	$ 1,341,221	$ (199,183)
Cash Flows from Investing Activities		
Purchases of fixed assets	$ (520,856)	$ (155,158)
Proceeds from sales of marketable securities	702,926	- -
Purchases of marketable securities	(42,220)	- -
Net cash provided by (used in) investing activities	$ 139,850	$ (155,158)
Net increase (decrease) in cash	$ 1,481,071	$ (354,341)
Cash		
Beginning	1,106,964	1,461,305
Ending	$ 2,588,035	$ 1,106,964

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, approximately 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, 2016 and 2015 is as follows:

	2016	2015
Program services provided outside the United States of America:		
Central America and the Caribbean	$ 319,540	$ 314,761
East Asia and the Pacific	143,522	161,640
Middle East and North Africa	22,654	33,372
North America	34,252	103,673
South America	506,602	515,652
South Asia	218,850	185,043
SubSahara Africa	148,606	139,505
	$ 1,394,026	$ 1,453,646
Program services provided in the United States of America	973,475	974,883
	$ 2,367,501	$ 2,428,529

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.

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 statements 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, 2016 and 2015 was $130,029 and $92,576, 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.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash. The Organization has cash deposits in financial institutions that may at times exceed the federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with these accounts.

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, 2016 and 2015, 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.

Note 3. Investments

Long-term investments as of June 30, 2016 and 2015 were as follows:

	2016		2015	
	Cost	Market Value	Cost	Market Value
Money market account	$ 1,309,993	$ 1,309,993	$ 1,718,482	$ 1,718,482
Mutual funds	1,041,608	1,121,378	1,248,458	1,416,936
	$ 2,351,601	$ 2,431,371	$ 2,966,940	$ 3,135,418

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, 2016 and 2015:

	Balance as of June 30, 2016	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	$ 1,309,993	$ 1,309,993	$ --	$ --
Mutual funds	1,121,378	1,121,378	--	--
	$ 2,431,371	$ 2,431,371	$ --	$ --

	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	$ 1,718,482	$ 1,718,482	$ --	$ --
Mutual funds	1,416,936	1,416,936	--	--
	$ 3,135,418	$ 3,135,418	$ --	$ --

Note 5. Furniture and Equipment

At June 30, 2016 and 2015, furniture and equipment consisted of the following:

	2016	2015
Cost	$ 1,147,636	$ 636,244
Accumulated depreciation	(248,900)	(127,175)
	$ 898,736	$ 509,069

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30, 2016 and 2015:

	2016	2015
Child Sponsorships with terms expiring subsequent to year-end	$ 860,220	$ 663,030

Temporarily restricted net assets released to expenses after satisfying restricted purposes during the years ended June 30, 2016 and 2015:

	2016	2015
Child Sponsorships with terms that have expired within the current year	$ 582,010	$ --

Note 7. 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 8. Donated Works of Art

During the year ended June 30, 2016, the Organization received contributions of certain artwork and coins in the form of a donation. The Organization intends to sell the artwork and coins at a future date and use the proceeds to further its mission. As of June 30, 2016 none of the items have been sold. The estimated value of the items totaled $15,596 as of June 30, 2016. Due to the potential change and uncertainty in the value of the items, the Organization has recorded a valuation allowance of $15,596 to cover the total value of the items. Consequently, the contributed artwork and coins are reflected in the accompanying statements of financial position with a balance of $0 as of June 30, 2016. The donation of $15,596 and the corresponding increase in the valuation allowance have been included in contributions and expenses, respectively, in the accompanying statement of activities for the year ended June 30, 2016.

Note 9. Contributions Receivable

During the year ended June 30, 2016, the Organization received a bequest from an estate of a long-term donor. As of June 30, 2016, the final proceeds from the settlement of the estate had not been finalized. As of June 30, 2016, the Organization expects to receive an additional contribution from the final settlement of the estate totaling $219,254. Due to the potential uncertainty in the final amount due the Organization upon settlement of the estate, the Organization has recorded an allowance of $219,254 to cover the total contributions receivable amount. Consequently, contributions receivable are reflected in the accompanying statements of financial position with a balance of $0 as of June 30, 2016. The contribution of $219,254 and the corresponding increase in the valuation allowance have been included in contributions and expenses, respectively, in the accompanying statement of activities for the year ended June 30, 2016.

Note 10. Major Contribution

During the year ended June 30, 2016, the Organization received a contribution from a donor that accounted for approximately 32% of total contributions for the year ended June 30, 2016. For the year ended June 30, 2015 there were no individual donor contributions representing a significant percentage of total contributions.

Note 11. Prior Period Adjustment

The financial statements as of June 30, 2015 have been adjusted to reclassify $663,030 of sponsorship contributions as temporarily restricted due to the intention of the donor that the prepaid portion of the donation be applied to future periods. Unrestricted net assets as of June 30, 2015 have decreased by $663,030 and temporarily restricted net assets as of June 30, 2015 have increased by $663,030. There is no effect to the overall change in net assets on the statement of activities as of June 30, 2015.

Note 12. Subsequent Events

Children, Incorporated has evaluated all subsequent events through November 10, 2016, the date the financial statements were available to be issued. Children, Incorporated has determined there are no subsequent events that require recognition or disclosure.