CHILDREN, INCORPORATED

Richmond, Virginia

FINANCIAL REPORT

JUNE 30, 2017

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Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

9954 Mayland Dr.
Suite 2300
Richmond, VA 23233

804.553.1900
YHBcpa.com
804.553.1908

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 ("the Organization") which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Yount, Hyde & Barbour, P.C.

Richmond, Virginia
November 14, 2017

CHILDREN, INCORPORATED

Statements of Financial Position
June 30, 2017 and 2016

Assets	2017	2016
Cash	$ 2,471,816	$ 2,588,035
Investments	2,491,415	2,431,371
Accounts receivable	5,545	515
Beneficial interests in charitable remainder annuity trusts	1,061,879	982,768
Prepaid expenses	10,998	6,678
Property and equipment, net	834,497	898,736
Total assets	$ 6,876,150	$ 6,908,103
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 288,893	$ 213,479
Accrued vacation	10,436	11,545
Other payroll liabilities	17,241	6,420
	$ 316,570	$ 231,444
Net Assets		
Unrestricted	$ 4,087,048	$ 4,261,324
Temporarily restricted	1,900,185	1,842,988
Permanently restricted	572,347	572,347
	$ 6,559,580	$ 6,676,659
Total liabilities and net assets	$ 6,876,150	$ 6,908,103

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and other changes in net assets:				
Contributions	$ 2,680,527	$ 671,037	$ --	$ 3,351,564
(Loss) on disposal of fixed assets	(2,500)	--	--	(2,500)
Investment income	15,255	--	--	15,255
Gain on marketable securities	43,788	--	--	43,788
Change in value of beneficial interests in charitable remainder annuity trusts	--	79,111	--	79,111
Change in valuation allowance	212,621	--	--	212,621
Total revenues	$ 2,949,691	$ 750,148	$ --	$ 3,699,839
Net assets released from restrictions	692,951	(692,951)	--	--
Total revenues, support and other changes	$ 3,642,642	$ 57,197	$ --	$ 3,699,839
Expenses				
Program services	$ 3,262,166	$ --	$ --	$ 3,262,166
Administration	229,870	--	--	229,870
Fundraising	324,883	--	--	324,883
Total expenses	$ 3,816,918	$ --	$ --	$ 3,816,918
Change in net assets	$ (174,276)	$ 57,197	$ --	$ (117,079)
Net assets, beginning of year (as restated)	4,261,324	1,842,988	572,347	6,676,659
Net assets, end of year	$ 4,087,048	$ 1,900,185	$ 572,347	$ 6,559,580

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and other changes in net assets:				
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)
Change in value of beneficial interests in charitable remainder annuity trusts	--	(57,935)	--	(57,935)
Change in valuation allowance	(234,850)	--	--	(234,850)
Total revenues	$ 4,312,654	$ 721,265	$ --	$ 5,033,919
Net assets released from restrictions	582,010	(582,010)	--	--
Total revenues, support and other changes	$ 4,894,664	$ 139,255	$ --	$ 5,033,919
Expenses				
Program services	$ 3,572,997	$ --	$ --	$ 3,572,997
Administration	252,555	--	--	252,555
Fundraising	308,168	--	--	308,168
Total expenses	$ 4,133,720	$ --	$ --	$ 4,133,720
Change in net assets	$ 760,944	$ 139,255	$ --	$ 900,199
Net assets, beginning of year, as previously reported	3,500,380	663,030	572,347	4,735,757
Restatement of prior year net assets	--	1,040,703	--	1,040,703
Net assets, end of year, as restated	$ 4,261,324	$ 1,842,988	$ 572,347	$ 6,676,659

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Administration	Fundraising	Total
Compensation	$ 497,655	$ 94,289	$ 85,745	$ 677,688
Employee benefits	63,436	12,019	10,930	86,385
Payroll taxes	36,745	6,962	6,331	50,038
	$ 597,836	$ 113,270	$ 103,006	$ 814,111
Advertising and promotion	- -	- -	192,092	192,092
Bank and credit card fees	10,973	33,131	8,283	52,387
Depreciation	104,536	27,876	6,969	139,381
General insurance	12,606	3,362	840	16,808
Office expenses	42,526	11,340	2,835	56,701
Professional fees	53,469	14,258	3,565	71,292
Rent	8,006	2,135	534	10,675
Repairs and maintenance	1,620	432	108	2,160
Supplies and services for impoverished children	2,328,301	- -	- -	2,328,301
Software expense	57,044	15,212	3,803	76,058
Travel	21,553	2,536	1,268	25,357
Other	14,857	3,962	990	19,809
Utilities	8,840	2,357	589	11,786
	$ 3,262,166	$ 229,870	$ 324,883	$ 3,816,918

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	10,957	33,084	8,271	52,312
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	2,566,183	- -	- -	2,566,183
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
	$ 3,572,997	$ 252,555	$ 308,168	$ 4,133,720

See Notes to Financial Statements.

CHILDREN, INCORPORATED

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ (117,079)	$ 900,199
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	139,381	130,029
Loss on disposal of fixed assets	2,500	1,160
Realized (gain) on sale of marketable securities	(16,893)	(45,367)
Unrealized (gain) loss on marketable securities	(26,895)	88,708
Change in value of beneficial interests in Charitable Remainder Annuity Trusts	(79,111)	57,935
Change in assets and liabilities:		
(Increase) in accounts receivable	(5,030)	(455)
(Increase) decrease in prepaid expenses	(4,320)	1,692
Increase in accounts payable	75,414	206,837
(Decrease) in accrued vacation	(1,109)	(997)
Increase in other payroll liabilities	10,821	1,480
Net cash (used in) provided by operating activities	$ (22,321)	$ 1,341,221
Cash Flows from Investing Activities		
Purchases of fixed assets	$ (77,642)	$ (520,856)
Proceeds from sales of marketable securities	166,738	702,926
Purchases of marketable securities	(182,994)	(42,220)
Net cash (used in) provided by investing activities	$ (93,898)	$ 139,850
Net (decrease) increase in cash	$ (116,219)	$ 1,481,071
Cash		
Beginning	2,588,035	1,106,964
Ending	$ 2,471,816	$ 2,588,035

See 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, 2017 and 2016 is as follows:

	2017	2016
Program services provided outside the United States of America:		
Central America and the Caribbean	$ 314,816	$ 346,356
East Asia and the Pacific	91,545	155,566
Middle East and North Africa	--	24,555
North America	30,785	37,126
South America	506,277	549,116
South Asia	230,878	237,216
SubSahara Africa	145,353	161,077
	$ 1,319,654	$ 1,511,013
Program services provided in the United States of America	1,008,647	1,055,170
	$ 2,328,301	$ 2,566,183

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, 2017 and 2016 was $139,381 and $130,029, 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, 2017 and 2016, 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.

New Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two classes of net assets, which are based on the existence or absence of donor-implied restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU 2016-14 is effective for the Organization in fiscal year 2019. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

Note 3. Investments

Long-term investments as of June 30, 2017 and 2016 were as follows:

	2017		
	Cost	Market Value	Unrealized Gain (Loss)
Money market account	$ 1,321,755	$ 1,321,755	$ - -
Mutual funds	1,062,995	1,169,660	106,665
	$ 2,384,750	$ 2,491,415	$ 106,665

	2016		
	Cost	Market Value	Unrealized Gain (Loss)
Money market account	$ 1,309,993	$ 1,309,993	$ - -
Mutual funds	1,041,608	1,121,378	79,770
	$ 2,351,601	$ 2,431,371	$ 79,770

Note 4. Fair Value Measurements

Children, Incorporated has two 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, 2017 and 2016:

	Balance as of June 30, 2017	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	$ 1,321,755	$ 1,321,755	$ --	$ --
Mutual funds	1,169,660	1,169,660	--	--
	$ 2,491,415	$ 2,491,415	$ --	$ --

	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	$ --	$ --

Note 5. Beneficial Interests in Charitable Remainder Annuity Trusts

The Organization is a beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when clear title is established and the proceeds are clearly measurable. In the absence of donor-imposed conditions, the Foundation recognizes its beneficial interest in a trust as a contribution in the period in which it receives notice that the trust agreement conveys an unconditional right to receive benefits.

In addition, the Organization is a beneficiary of two charitable remainder annuity trusts, for which the Organization will receive 30% and 2.2%, respectively, upon the final termination of the trusts. At that time the final market value of the trusts will be distributed to the Organization. The value of the Organization's portion of the charitable remainder annuity trusts is $1,061,879 and $982,768, at June 30, 2017 and 2016, respectively.

Note 6. Property and Equipment

At June 30, 2017 and 2016, property and equipment consisted of the following:

	2017	2016
Property and equipment	$ 1,212,274	$ 1,147,636
Accumulated depreciation	(377,777)	(248,900)
	$ 834,497	$ 898,736

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30, 2017 and 2016:

	2017	2016 (Restated)
Child Sponsorships with terms expiring subsequent to year-end	$ 1,821,074	$ 860,220
Time-restricted beneficial interests in charitable remainder annuity trusts	79,111	982,768
	$ 1,900,185	$ 1,842,988

Temporarily restricted net assets released to expenses after satisfying restricted purposes during the years ended June 30, 2017 and 2016:

	2017	2016
Child Sponsorships with terms that have expired within the current year	$ 692,951	$ 582,010

Note 8. 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 amounts of the December 1999, July 2010, and January 2012 contributions and use the investment earnings to provide funding for supplies and services for impoverished children.

Note 9. 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. For the year ended June 30, 2017, three of the items were sold. The estimated value of the items totaled $14,868 and $15,596 as of June 30, 2017 and 2016 respectively. Due to the potential change and uncertainty in the value of the items, the Organization has recorded a valuation allowance 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, 2017 and 2016 respectively. The donation and the corresponding increase in the valuation allowance are included in contributions and expenses, respectively, in the accompanying statements of activities for the years ended June 30, 2017 and 2016.

Note 10. 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, but the Organization expected 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 recorded an allowance of $219,254 to cover the total contributions receivable amount. During the year ended June 30, 2017, the Organization received the final proceeds due from the bequest, and subsequently reversed the allowance. This change is recorded as a $212,621 change in valuation allowance in the accompanying statement of activities for the year ended June 30, 2017.

Note 11. Major Contribution

During the year ended June 30, 2017, the Organization did not receive any contributions from a donor who individually accounted for a significant percentage of total contributions. 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.

Note 12. Restatement of Prior Year Net Assets

As disclosed in Note 5, the Organization is a beneficiary of two charitable remainder annuity trusts. As a result, the financial statements at June 30, 2016 and 2015 have been restated to recognize the value of the Organization's beneficial interests in these two charitable remainder annuity trusts. The Organization has determined that at June 30, 2015 the value of the Organization's portion of these beneficial interests totaled $1,040,703. The value has been recorded as an asset named beneficial interests in charitable remainder annuity trusts in the accompanying statements of financial position and as a restatement of prior year temporarily restricted net assets. In addition, the Organization has recorded the change in value of the beneficial interests in the charitable remainder annuity trusts of ($57,935) in the accompanying statement of activities for the year ended June 30, 2016.

In addition, the Organization discovered certain supplies and service for impoverished children expenses related to the year ended June 30, 2016 that were not previously included in accounts payable at June 30, 2016 totaling $198,682. The accompanying statement of financial position at June 30, 2016 and the related statements of activities and functional expenses for the year ended June 30, 2016 have been restated to properly reflect this accounts payable.

Note 13. Subsequent Events

Children, Incorporated has evaluated all subsequent events through November 14, 2017, the date the financial statements were available to be issued. Children, Incorporated has determined there are no subsequent events that require recognition or disclosure.