

Children International

Accountants' Report and Financial Statements

September 30, 2004



Children International
September 30, 2004

Contents

Independent Accountants' Report.....	1
 Financial Statements	
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Functional Expenses.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6



Twelve Wyandotte Plaza
120 West 12th Street, Suite 1200
Kansas City, MO 64105-1936
816 221-6300 Fax 816-221-6380

bkd.com

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, 2004, 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, 2004, 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 5, 2004

**Solutions
for
Success**

Children International
Statement of Financial Position
September 30, 2004

Assets

Cash and cash equivalents	\$	823,299
Investments		3,158,199
Gift annuity investments		1,675,185
Assets limited as to use		
Board-designated endowment investments		19,781,737
Donor-restricted cash and investments		<u>496,303</u>
Total assets limited as to use		20,278,040
Land, buildings and equipment, less accumulated depreciation of \$8,796,575		5,828,799
Other assets		<u>1,970,466</u>
Total assets	\$	<u><u>33,733,988</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$	1,391,561
Liabilities under contracts and agreements		
Gift Annuity Funds		1,183,551
Deposit Plan Funds		41,249
Note payable		1,008,609
Advances on bank line of credit		<u>320,000</u>
Total liabilities		<u>3,944,970</u>

Net Assets

Unrestricted		
Board-designated endowment		19,781,737
Undesignated		<u>9,510,978</u>
Total unrestricted net assets		29,292,715
Temporarily restricted		156,096
Permanently restricted		<u>340,207</u>
Total net assets		<u>29,789,018</u>
Total liabilities and net assets	\$	<u><u>33,733,988</u></u>

Children International
Statement of Activities
Year Ended September 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue				
Sponsorships and contributions	\$ 62,083,203	\$ 3,000		\$ 62,086,203
Corporate gifts and commodities	28,477,053			28,477,053
Legacies and bequests	1,232,011	209,324		1,441,335
Investment and other income, net	1,964,046	3,652		1,967,698
Net assets released from restrictions	<u>1,251,858</u>	<u>(1,251,858)</u>		<u>0</u>
Total public support and revenue	<u>95,008,171</u>	<u>(1,035,882)</u>		<u>93,972,289</u>
Expenses				
Program services				
Worldwide program services	<u>74,771,529</u>			<u>74,771,529</u>
Supporting services				
Management and general	7,974,998			7,974,998
Securing financial support	<u>11,917,860</u>			<u>11,917,860</u>
Total supporting services	<u>19,892,858</u>			<u>19,892,858</u>
Total expenses	<u>94,664,387</u>			<u>94,664,387</u>
Public Support and Revenue Over (Under) Expenses	<u>343,784</u>	<u>(1,035,882)</u>		<u>(692,098)</u>
Other Changes in Net Assets				
Increase in unrealized gain on investments	564,876			564,876
Adjustment of actuarial liability for gift annuities	<u>(42,020)</u>			<u>(42,020)</u>
	<u>522,856</u>			<u>522,856</u>
Change in Net Assets	866,640	(1,035,882)		(169,242)
Net Assets, Beginning of Year	<u>28,426,075</u>	<u>1,191,978</u>	\$ <u>340,207</u>	<u>29,958,260</u>
Net Assets, End of Year	\$ <u>29,292,715</u>	\$ <u>156,096</u>	\$ <u>340,207</u>	\$ <u>29,789,018</u>

Children International
Statement of Functional Expenses
Year Ended September 30, 2004

	Program Services	Supporting Services			Total Expenses
	Worldwide Program Services	Management and General	Securing Financial Support	Total Supporting Services	
Financial aid and assistance	\$ 64,226,094				\$ 64,226,094
Supplies	119,535	\$ 59,768	\$ 19,922	\$ 79,690	199,225
Telecommunications	277,510	71,157	362,898	434,055	711,565
Postage and shipping	763,926	1,489,656	1,566,048	3,055,704	3,819,630
Occupancy cost	253,199	126,599	42,200	168,799	421,998
Equipment maintenance	265,975	102,298	40,919	143,217	409,192
Printing and publications	441,248	583,707	1,549,232	2,132,939	2,574,187
Professional services		642,265	71,363	713,628	713,628
Transportation	527,530	50,604	29,378	79,982	607,512
Training and continuing education	132,510	66,255	22,085	88,340	220,850
Advertising and public awareness		1,118,598	6,338,725	7,457,323	7,457,323
Salaries and wages	5,240,020	2,439,319	1,355,177	3,794,496	9,034,516
Employee benefits	681,200	317,110	176,173	493,283	1,174,483
Payroll taxes	398,133	185,338	102,965	288,303	686,436
Bank charges and other	525,730	262,865	87,622	350,487	876,217
Depreciation of buildings and equipment	<u>918,919</u>	<u>459,459</u>	<u>153,153</u>	<u>612,612</u>	<u>1,531,531</u>
	<u>\$ 74,771,529</u>	<u>\$ 7,974,998</u>	<u>\$ 11,917,860</u>	<u>\$ 19,892,858</u>	<u>\$ 94,664,387</u>

Children International
Statement of Cash Flows
Year Ended September 30, 2004

Operating Activities	
Decrease in net assets	\$ (169,242)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Loss on disposal of equipment	1,477
Increase in unrealized gain on investments	(564,876)
Realized gains on investments	(1,073,163)
Depreciation	1,531,531
Changes in:	
Interest and dividends receivable	15,328
Gift annuity and deposit plan liabilities	28,064
Accounts payable and accrued liabilities	(190,840)
Other assets	<u>(230,339)</u>
Net cash used in operating activities	<u>(652,060)</u>
Investing Activities	
Purchase of investments	(6,773,312)
Sales of investments	9,274,742
Purchase of property and equipment	(2,331,088)
Deposits for acquisition of equipment	(320,000)
Proceeds from sale of equipment	<u>599,989</u>
Net cash provided by investing activities	<u>450,331</u>
Financing Activities	
Principal payments on note payable	(232,053)
Proceeds from line of credit	<u>320,000</u>
Net cash provided by financing activities	<u>87,947</u>
Decrease in Cash and Cash Equivalents	(113,782)
Cash and Cash Equivalents, Beginning of Year	<u>937,081</u>
Cash and Cash Equivalents, End of Year	<u>\$ 823,299</u>
Noncash Investing Activity	
Acquisition of property and equipment financed by accounts and notes payable	<u>\$ 130,064</u>

Children International
Notes to Financial Statements
September 30, 2004

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 direct 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.

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*.

Restricted Net Assets

The Organization 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.

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. Other assets include an estimated portion of expected insurance proceeds relating to damage to a printing press that occurred in 2003. Actual results could differ from those estimates.

Children International
Notes to Financial Statements
September 30, 2004

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.

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

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.

Approximately 18% of all contributions were received from one donor in 2004.

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 and realized gains and losses on investment transactions are included in public support and revenue while unrealized gains and losses on investments are included in other changes in net assets on the statement of activities.

Children International
Notes to Financial Statements
September 30, 2004

Investments at September 30, 2004 consisted of the following:

Carried at fair value	
U.S. Government obligations	\$ 9,635,472
Corporate stocks and bonds	13,328,457
Money market funds and short-term	
U.S. Government obligations	1,310,354
Mortgage-backed securities	523,576
Certificates of deposit	207,530
Accrued interest and dividends receivable	<u>106,035</u>
Total, at fair value	<u>\$ 25,111,424</u>
Total, at historical cost	<u>\$ 25,120,066</u>

Investments are presented in the balance sheet as follows:

Investments	\$ 3,158,199
Gift annuity investments	1,675,185
Assets limited as to use	
Board-designated endowment	19,781,737
Donor-restricted	<u>496,303</u>
	<u>\$ 25,111,424</u>

Investment return during 2004 consisted of the following:

Interest and dividend income	\$ 584,358
Investment management fees and expenses	(148,596)
Realized gains, net	1,073,163
Increase in unrealized gains, net	<u>564,876</u>
	<u>\$ 2,073,801</u>

Children International
Notes to Financial Statements
September 30, 2004

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. A summary of activity for the year ended September 30, 2004 is as follows:

	Balance, September 30, 2003	Additions	Retirements	Balance, September 30, 2004
Land and land improvements	\$ 185,818	\$ 4,700		\$ 190,518
Buildings and equipment	12,968,265	786,591	\$ (1,788,805)	11,966,051
Computer conversion costs in process	<u>798,944</u>	<u>1,669,861</u>	<u>—</u>	<u>2,468,805</u>
	13,953,027	2,461,152	(1,788,805)	14,625,374
Less accumulated depreciation	<u>7,710,588</u>	<u>1,531,531</u>	<u>(445,544)</u>	<u>(8,796,575)</u>
Net	<u>\$ 6,242,439</u>	<u>\$ 929,621</u>	<u>\$ (1,343,261)</u>	<u>\$ 5,828,799</u>

Note 2: Borrowings

Note payable, due in monthly principal payments of \$19,338, through February 2006, with the balance due in March 2006. Interest due monthly at 4.25%, secured by machinery and equipment. Paid in full in October 2004.

\$ 1,008,609

The Organization had advances on a \$2,000,000 bank line of credit agreement totaling \$320,000 at September 30, 2004. Interest is due monthly at the prime rate, which was 4.75% on September 30, 2004. All unpaid principal and accrued interest is due on June 18, 2005.

Note 3: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Support for programs in the Bethlehem area	\$ 67,405
Future child sponsorship support	<u>88,691</u>
Total	<u>\$ 156,096</u>

Children International
Notes to Financial Statements
September 30, 2004

Temporarily restricted net assets were released from restriction during the year for the following purposes:

Bethlehem area programs	\$ 1,250,418
Child sponsorship support	<u>1,440</u>
Total	<u>\$ 1,251,858</u>

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 4: 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 \$440,400 for the year ended September 30, 2004.

Note 5: 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 6: 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.