

# **Children International**

Auditor's Report and Consolidated Financial Statements

September 30, 2017



**Children International**  
**September 30, 2017**

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## Independent Auditor's Report

Board of Directors  
Children International  
Kansas City, Missouri

We have audited the accompanying consolidated financial statements of Children International, which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Directors  
Children International  
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*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children International as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Kansas City, Missouri  
December 8, 2017

**Children International**  
**Consolidated Statement of Financial Position**  
**September 30, 2017**

**Assets**

Cash and cash equivalents	\$ 4,507,306
Investments	11,256,474
Gift annuity investments	1,002,158
Pledges receivable	128,536
Assets limited as to use	
Board-designated endowment investments	32,564,466
Donor-restricted endowment investments	494,868
Donor-restricted investments	<u>717,640</u>
Total assets limited as to use	<u>33,776,974</u>
Land, buildings and equipment, less accumulated depreciation of \$25,350,067	15,195,182
Other assets	<u>1,586,895</u>
Total assets	<u><u>\$ 67,453,525</u></u>

**Liabilities and Net Assets**

Accounts payable and accrued liabilities	\$ 3,129,327
Liabilities under contracts and agreements	
Gift annuity funds	784,492
Deposit plan funds	16,250
Bonds payable	<u>2,143,000</u>
Total liabilities	<u>6,073,069</u>

**Net Assets**

Unrestricted	
Board-designated endowment	32,564,466
Undesignated	<u>27,046,314</u>
Total unrestricted net assets	59,610,780
Temporarily restricted	1,283,275
Permanently restricted	<u>486,401</u>
Total net assets	<u>61,380,456</u>
Total liabilities and net assets	<u><u>\$ 67,453,525</u></u>

**Children International**  
**Consolidated Statement of Activities**  
**Year Ended September 30, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Public Support and Revenue</b>				
Sponsorships and contributions	\$ 80,327,445	\$ 87,277	\$ 50,850	\$ 80,465,572
Product donations	55,570,635	-	-	55,570,635
Legacies and bequests	1,132,890	28,747	-	1,161,637
Grants and other income, net	765,584	-	-	765,584
Net assets released from restrictions	286,688	(286,688)	-	-
	<u>138,083,242</u>	<u>(170,664)</u>	<u>50,850</u>	<u>137,963,428</u>
<b>Expenses</b>				
Program services				
Worldwide program services	<u>123,642,664</u>			<u>123,642,664</u>
Supporting services				
Management and general	6,593,347			6,593,347
Securing financial support	<u>7,531,836</u>			<u>7,531,836</u>
	<u>14,125,183</u>			<u>14,125,183</u>
	<u>137,767,847</u>			<u>137,767,847</u>
<b>Public Support and Revenue Over (Under) Expenses</b>	<u>315,395</u>	<u>(170,664)</u>	<u>50,850</u>	<u>195,581</u>
<b>Non-Operating Activities</b>				
Endowment earnings	1,024,247	8,467		1,032,714
Unrealized gain on investments	1,697,546			1,697,546
Decrease in actuarial liability for gift annuities	102,062			102,062
Decrease in value of deliverable and non-deliverable forward contracts	<u>(1,135)</u>			<u>(1,135)</u>
	<u>2,822,720</u>	<u>8,467</u>		<u>2,831,187</u>
<b>Increase (Decrease) in Net Assets</b>	3,138,115	(162,197)	50,850	3,026,768
<b>Net Assets, Beginning of Year</b>	<u>56,472,665</u>	<u>1,445,472</u>	<u>435,551</u>	<u>58,353,688</u>
<b>Net Assets, End of Year</b>	<u>\$ 59,610,780</u>	<u>\$ 1,283,275</u>	<u>\$ 486,401</u>	<u>\$ 61,380,456</u>

**Children International**  
**Consolidated Statement of Functional Expenses**  
**Year Ended September 30, 2017**

	Worldwide Program Services	Supporting Services			Total Expenses
		Management and General	Securing Financial Support	Total Supporting Services	
Financial aid and assistance	\$ 109,298,951	\$ -	\$ -	\$ -	\$ 109,298,951
Supplies	39,695	12,165	12,165	24,330	64,025
Telecommunications	140,344	32,683	19,225	51,908	192,252
Postage and shipping	642,115	364,838	452,399	817,237	1,459,352
Occupancy cost	361,593	154,012	154,012	308,024	669,617
Equipment maintenance	622,425	173,463	224,481	397,944	1,020,369
Printing and publications	407,195	87,827	303,401	391,228	798,423
Professional services	934,474	458,422	370,264	828,686	1,763,160
Transportation	379,770	33,023	137,598	170,621	550,391
Training and continuing education	57,144	12,878	10,463	23,341	80,485
New sponsor education and recruitment	-	491,599	2,580,897	3,072,496	3,072,496
Salaries and wages	7,856,521	2,704,704	2,318,318	5,023,022	12,879,543
Employee benefits	1,359,627	468,068	401,201	869,269	2,228,896
Payroll taxes	564,304	179,144	152,272	331,416	895,720
Bank charges and other	143,300	1,107,319	52,109	1,159,428	1,302,728
Depreciation of buildings and equipment	835,206	313,202	343,031	656,233	1,491,439
	<u>\$ 123,642,664</u>	<u>\$ 6,593,347</u>	<u>\$ 7,531,836</u>	<u>\$ 14,125,183</u>	<u>\$ 137,767,847</u>

**Children International**  
**Consolidated Statement of Cash Flows**  
**Year Ended September 30, 2017**

<b>Operating Activities</b>	
Increase in net assets	\$ 3,026,768
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Unrealized gain on investments	(1,697,546)
Realized gain on investments	(617,574)
Change in annuity investments	(134,029)
Depreciation and amortization	1,580,224
Contributions received restricted for long-term investments	(50,850)
Changes in	
Accounts payable and accrued liabilities	473,135
Other assets	<u>(175,572)</u>
Net cash provided by operating activities	<u>2,404,556</u>
<b>Investing Activities</b>	
Changes in gift annuity and deposit plan liabilities	(57,161)
Purchase of investments	(25,273,595)
Sales of investments	24,208,175
Purchase of property and equipment	<u>(1,373,154)</u>
Net cash used in investing activities	<u>(2,495,735)</u>
<b>Financing Activities</b>	
Proceeds from contributions restricted for long-term investments	50,850
Principal payment on bonds payable	<u>(1,077,000)</u>
Net cash used in financing activities	<u>(1,026,150)</u>
<b>Decrease in Cash and Cash Equivalents</b>	(1,117,329)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>5,624,635</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 4,507,306</u></u>
<b>Supplemental Cash Flows Information</b>	
Interest paid	\$ 113,682
Property and equipment financed by accounts payable	68,692



# **Children International**

## **Notes to Consolidated Financial Statements**

### **September 30, 2017**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Children International (the Organization) is organized under the Missouri Non-profit Corporation law, with headquarters in Kansas City, Missouri.

Children International's vision: End poverty globally. Half of all those living in poverty in the world (about a billion) are children. Children International, a non-profit, worldwide humanitarian organization, is focused on breaking the cycle of generational poverty for the children they serve. This is done largely by connecting individual children with supporters, who are transformed by their own ability to create lasting impact. Children International builds, maintains and staffs community centers and delivers high-impact programs in four crucial areas: health, education, empowerment and employment. The Organization contextualizes programs to overcome the specific challenges for each location and deliver the most impact for children and youth. Through this customized approach, Children International's goal is for each child to graduate from their program healthy, educated, employed and empowered, so they may radically change their lives and create a ripple effect that impacts their families and communities for generations to come.

Children International India and Children International, Inc., in the Philippines, were organized in 2012 as fundraising and program affiliates of the Organization in support of its worldwide programs. Children International – Australia (CI–Australia), Children International – Canada (CI–Canada) and Children International – Dominican Republic (CI–DR), were organized in 2014 as fundraising and program affiliates of the Organization in support of its worldwide programs. Children International provides management assistance and oversight to these organizations to ensure they are operating in accordance with the Organization's vision.

##### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Organization and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### ***Related Parties***

The Organization works in conjunction with organizations in the United States of America and abroad to provide assistance to impoverished children ages 3 to 24. In addition to funding, the Organization provides management assistance and oversight to these organizations to ensure they deliver the required benefits and services.

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. The Organization provides assistance and oversight to CICO along with the other humanitarian organizations serving the local communities.

# **Children International**

## **Notes to Consolidated Financial Statements**

### **September 30, 2017**

#### ***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 consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Organization considers all liquid investments with maturities of three months or less to be cash equivalents. At September 30, 2017, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2017, the Organization's cash accounts exceeded federally insured limits by approximately \$60,000.

#### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in alternative investments are recorded at the estimated net asset value per share, as a practical expedient to fair value, of the investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Investment return is reflected in the consolidated 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 endowment investments is presented as non-operating income in the consolidated 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 Instruments***

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 deliverable and non-deliverable forward contracts for a portion of its future commitments to local foreign program locations. In the non-deliverable 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 program location. 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.

# **Children International**

## **Notes to Consolidated Financial Statements**

### **September 30, 2017**

When entering into a deliverable forward contract, the Organization purchases foreign currency based upon a specified exchange rate to be delivered on a future settlement date. At year end, the Organization reports a receivable for the fair market value of the foreign currency based upon current exchange rates and a liability based on the contracted exchange rate. The difference is reflected in the Statement of Activities as an Increase or Decrease in Value of Deliverable Forward Contracts. By entering into these contracts, the Organization ensures the program location will receive the contracted local currency amount which, in most cases, approximates their budgeted amounts.

These agreements are recorded at fair value with subsequent changes in fair value included in change in net assets.

#### ***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. The 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.

#### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

#### ***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.

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 initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

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.

**Children International**  
**Notes to Consolidated Financial Statements**  
**September 30, 2017**

***Product Donations***

In addition to receiving cash contributions, the Organization receives contributions of medical supplies, textbooks, clothing, shoes, etc. from various donors. It is the Organization's policy to record these donated items at their estimated wholesale market value in accordance with industry standards developed by Accord referred to as the Interagency Gifts in Kind Standards. The Organization has included \$55,570,635 in Public Support and Revenue and the same amount under Worldwide Program Service expense for the year ended September 30, 2017.

***Income Taxes***

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. 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.

***New Sponsor Education and Recruitment***

New sponsor education and recruitment costs are expensed as incurred.

**Children International**  
**Notes to Consolidated Financial Statements**  
**September 30, 2017**

***Land, Buildings and Equipment***

Land, buildings and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of each asset. 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, 2017 is as follows:

	<b>Balance, September 30, 2016</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements</b>	<b>Balance, September 30, 2017</b>
Land and land improvements	\$ 315,156				\$ 315,156
Buildings and equipment	38,836,936	\$ 1,393,157	\$ -	\$ -	40,230,093
	39,152,092	1,393,157	-	-	40,545,249
Less accumulated depreciation	23,858,628	1,491,439	-	-	25,350,067
	\$ 15,293,464	\$ (98,282)	\$ -	\$ -	\$ 15,195,182

***Transfers Between Fair Value Hierarchy Levels***

The fair value of certain assets and liabilities is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization has summarized the fair value of these assets and liabilities in *Note 10* to these consolidated financial statements. Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

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**Notes to Consolidated Financial Statements**  
**September 30, 2017**

**Note 2: Investments**

Investments at September 30, 2017 consisted of the following:

Money market funds and short-term	
U.S. government obligations	\$ 165,195
U.S. government obligations	1,011,556
Corporate bonds	897,243
Corporate stocks	5,970,466
Mutual funds	
Vanguard Total Stock Market Mutual Fund	7,142,524
Doubleline Total Return Bond Fund	3,886,788
Lord Abbett Short Duration Income Fund	4,916,022
Metropolitan West Total Return Fund	5,503,810
RiverPark Short Term High Yield Institutional Fund	4,078,226
Other mutual funds	5,479,898
Private equity investment partnerships	3,110,572
Limited partnership	3,873,306
	<u>                    </u>
Total, at fair value	<u>\$ 46,035,606</u>
Total, at historical cost	<u>\$ 40,751,432</u>

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

Investments	\$ 11,256,474
Gift annuity investments	1,002,158
Assets limited as to use	
Board-designated endowment	32,564,466
Donor-restricted endowment	494,868
Donor-restricted investments	717,640
	<u>                    </u>
	<u>\$ 46,035,606</u>

**Children International**  
**Notes to Consolidated Financial Statements**  
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Investment return during 2017 consisted of the following:

Endowment interest and dividend income	\$ 365,057
Endowment realized gains	667,657
Total endowment investment gains	<u>1,032,714</u>
Annuity investment return	134,029
Interest and dividend income	703,237
Realized loss, net	(50,083)
Investment management fees and expenses	<u>(54,489)</u>
	1,765,408
Unrealized gain, net	<u>1,697,546</u>
	<u><u>\$ 3,462,954</u></u>

Total investment return is reflected in the consolidated statement of activities as follows:

Operating income	\$ 732,694
Other (nonoperating gain)	<u>2,730,260</u>
	<u><u>\$ 3,462,954</u></u>

***Alternative Investments***

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at September 30:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity investment				
partnerships (A)	\$ 3,110,572	\$ 1,806,942	N/A	N/A
Limited partnership (B)	3,873,306	-	Monthly	7-30 Days

(A) The private equity investment partnerships consist of primarily non-marketable investments in various venture capital funds and private partnerships. These funds have an 8-12 year fund life plus the option of extensions.

(B) The limited partnership is invested primarily in actively traded small and mid-capitalization stocks. These funds can be redeemed monthly and with 7-30 days' notice.

**Children International**  
**Notes to Consolidated Financial Statements**  
**September 30, 2017**

**Note 3: Bonds Payable**

Bonds payable, due November 1, 2019; semi-annual principal payments beginning February 1, 2012; interest is paid monthly through November 2019, at 4.23%; secured by the building.

\$ 2,143,000  
                    

Aggregate annual maturities of bonds payable at September 30, 2017 are:

2018	\$ 785,000
2019	820,000
2020	<u>538,000</u>
Total	<u><u>\$ 2,143,000</u></u>

In accordance with the bond document, the Organization may annually redeem up to 10 percent of the outstanding principal amount of the bonds. The additional payment reduces the final balloon payment due in November 2019. During the year ended September 30, 2017, the Organization made an additional \$322,000 payment beyond the required scheduled debt payments.

**Note 4: Annuities Payable**

The Organization has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Organization has recorded a liability at September 30, 2017, of \$784,492, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate based on the National Association of Insurance Commissioners statutory valuation interest rates. No contribution revenue was recognized under such agreements for the year ended September 30, 2017.



**Children International**  
**Notes to Consolidated Financial Statements**  
**September 30, 2017**

**Note 5: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at September 30, 2017 are available for the following purposes or periods:

DALE Service Area Center	\$ 128,536
Into Employment program	8,467
Beneficial interest in trusts included in other assets	428,632
Future child sponsorship support	<u>717,640</u>
	<u><u>\$ 1,283,275</u></u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at September 30, 2017 totaled \$486,401 and include investments to be held in perpetuity, the income of which is expendable to support any activity of the Organization.

***Net Assets Released from Restrictions***

Temporarily restricted net assets totaling \$286,688 were released from restriction during the year to construct community centers in program locations, to provide benefits for specific sponsored children and to support other donor initiatives.

**Note 6: Endowment**

The Organization's endowment consists of four individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is

**Children International**  
**Notes to Consolidated Financial Statements**  
**September 30, 2017**

classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

The composition of net assets by type of endowment fund at September 30, 2017 was:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 8,467	\$ 486,401	\$ 494,868
Board-designated endowment funds	32,564,466	-	-	32,564,466
Total endowment funds	<u>\$ 32,564,466</u>	<u>\$ 8,467</u>	<u>\$ 486,401</u>	<u>\$ 33,059,334</u>

Changes in endowment net assets for the year ended September 30, 2017 was:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 29,774,034	\$ -	\$ 435,551	\$ 30,209,585
Contributions	-	-	50,850	50,850
Investment return				
Investment gains	1,024,247	8,467	-	1,032,714
Unrealized investment gain	1,766,185	-	-	1,766,185
Endowment net assets, end of year	<u>\$ 32,564,466</u>	<u>\$ 8,467</u>	<u>\$ 486,401</u>	<u>\$ 33,059,334</u>

**Children International**  
**Notes to Consolidated Financial Statements**  
**September 30, 2017**

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at September 30, 2017 consisted of:

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u><u>\$ 486,401</u></u>
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The Organization has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment while providing for periodic expenditures from the fund. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Organization's policies, endowment assets are invested in a manner that is intended to produce results that meet a composite of market indices while assuming a reduced level of investment risk.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy (the spending policy) allowing the Board of Directors to appropriate for expenditure each year an appropriate amount of its endowment fund as recommended by the board and officers of the Organization. Such recommendations are generally to be made each year in connection with the proposed budget for the following fiscal year. In establishing this policy, the Organization considered the long-term expected return on its endowment.

**Note 7: Related-Party Transactions**

The Organization and Children International Community Organization (CICO) are related parties that are not financially interrelated organizations. CICO develops, owns and operates the local community centers through which social services are provided to impoverished children throughout the world. The Organization raises funds from donors and transfers certain funds to CICO providing the resources necessary to construct community centers throughout the Organization's international program locations.

The Organization's contributions to CICO during the year ended September 30, 2017 was \$1,389,956 and is included as worldwide program service expense in its consolidated statement of activities.

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**Note 8: Benefit Plan**

The Organization funds a defined contribution retirement plan for all employees. The Organization's contribution is based on the employee's salary. The total expense for the plan was \$656,276 for the year ended September 30, 2017.

The Organization also maintains a 403(b) Plan for pre-tax and Roth deferrals for all employees. There is no employer contribution option for the Plan.

**Note 9: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Investments***

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statement of financial position.

As described in *Note 10*, fair values of the alternative investments are determined by the Organization's management and an investment consulting firm.

***Forward Contracts***

As described in *Note 10*, fair value of the deliverable and non-deliverable forward contracts is determined using market data as of September 30, 2017 reflecting current foreign exchange rates.

***Gift Annuity Liabilities***

As described in *Note 10*, fair values of the annuity obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

***Contributions***

Approximately 95 percent of all product donations contributions were received from three donors in 2017. Those donors represent approximately 38 percent of total revenues received in 2017.

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***Product Donations***

Fair value of product donations is determined by the Organization using market values for donated assets less any bulk discounts or retail price markups.

**Note 10: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds and short-term				
U.S. government obligations	\$ 165,195	\$ 165,195		
U.S. government obligations	1,011,556		\$ 1,011,556	
Corporate bonds	897,243		897,243	
Corporate stocks	5,970,466	5,970,466		
Mutual funds				
Vanguard Total Stock Market Mutual Fund	7,142,524	7,142,524		
Doubleline Total Return Bond Fund	3,886,788	3,886,788		
Lord Abbett Short Duration Income Fund	4,916,022	4,916,022		
Metropolitan West Total Return Fund	5,503,810	5,503,810		
RiverPark Short Term High Yield Institutional Fund	4,078,226	4,078,226		
Other mutual funds	5,479,898	5,479,898		
Private equity investment partnerships measured at net asset value (A)	3,110,572			
Limited partnership measured at net asset value (A)	3,873,306			\$ -
Total investments	46,035,606	37,142,929	1,908,799	-
Deliverable and non-deliverable forward contracts, net	4,478		4,478	
Cash equivalents	2,114,016	2,114,016		
Total fair value of recurring measurements	\$ 48,154,100	\$ 39,256,945	\$ 1,913,277	\$ -

(A) Certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2017.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

***Deliverable and Non-deliverable Forward Contracts***

Fair value of forward contracts is determined using published foreign exchange rates at September 30, 2017; however, these rates do not constitute the rate at which the Organization will exchange for the underlying security and is therefore classified within Level 2 of the valuation hierarchy.

***Cash Equivalents***

Cash equivalents consists of a money market account which is valued using quoted market prices in an active market and is therefore classified within Level 1 of the valuation hierarchy.

**Note 11: Subsequent Events**

Subsequent events have been evaluated through December 8, 2017, which is the date the consolidated financial statements were available to be issued.