

Children International

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2022

Children International
September 30, 2022

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Independent Auditor's Report

Board of Directors
Children International
Kansas City, Missouri

Opinion

We have audited the consolidated financial statements of Children International, which comprise the consolidated unclassified statement of financial position as of September 30, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Children International as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of Children International and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Children International's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Emphasis of Matter

As described in Note 11 to the consolidated financial statements, in 2022, Children International adopted ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Children International's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children International's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating statement of financial position listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

FORVIS,LLP

Kansas City, Missouri
December 15, 2022

Children International
Consolidated Unclassified Statement of Financial Position
September 30, 2022

Assets

Cash and cash equivalents	\$	9,565,836
Investments		25,933,556
Gift annuity investments		831,248
Assets limited as to use		
Board-designated endowment investments		43,889,919
Donor-restricted endowment investments		993,735
Donor-restricted investments		<u>530,691</u>
Total assets limited as to use		<u>45,414,345</u>
Land, buildings and equipment, less accumulated depreciation of \$29,288,225		12,739,158
Prepaid assets		6,635,605
Other assets		<u>999,547</u>
Total assets	\$	<u><u>102,119,295</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$	3,143,387
Liabilities under contracts and agreements		
Gift annuity investments and deposit plan trust funds		<u>463,615</u>
Total liabilities		<u>3,607,002</u>

Net Assets

Without donor restrictions		96,483,665
With donor restrictions		<u>2,028,628</u>
Total net assets		<u>98,512,293</u>
Total liabilities and net assets	\$	<u><u>102,119,295</u></u>

Children International
Consolidated Statement of Activities
Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Sponsorships and contributions	\$ 88,002,971	\$ 114,640	\$ 88,117,611
Product donations	18,809,214	-	18,809,214
Legacies and bequests	1,847,212	-	1,847,212
Investment and other income, net	541,658	-	541,658
Net assets released from restrictions	155,294	(155,294)	-
	<u>109,356,349</u>	<u>(40,654)</u>	<u>109,315,695</u>
Expenses			
Program services			
Worldwide program services	<u>84,972,103</u>		<u>84,972,103</u>
Supporting services			
Management and general	7,717,066		7,717,066
Securing financial support	<u>12,812,894</u>		<u>12,812,894</u>
	<u>20,529,960</u>		<u>20,529,960</u>
	<u>105,502,063</u>		<u>105,502,063</u>
Public Support and Revenue Over Expenses	<u>3,854,286</u>	<u>(40,654)</u>	<u>3,813,632</u>
Non-Operating Activities			
Net investment return	(8,927,935)	41,008	(8,886,927)
Change in actuarial liability for gift annuities	<u>27,911</u>	<u>-</u>	<u>27,911</u>
	<u>(8,900,024)</u>	<u>41,008</u>	<u>(8,859,016)</u>
Increase in Net Assets	(5,045,738)	354	(5,045,384)
Net Assets, Beginning of Year	<u>101,529,403</u>	<u>2,028,274</u>	<u>103,557,677</u>
Net Assets, End of Year	<u>\$ 96,483,665</u>	<u>\$ 2,028,628</u>	<u>\$ 98,512,293</u>

Children International
Consolidated Statement of Functional Expenses
Year Ended September 30, 2022

	Worldwide Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Management and General	Securing Financial Support		
Financial aid and assistance	\$ 67,979,267	\$ -	\$ -	\$ -	\$ 67,979,267
Occupancy cost	169,082	72,016	72,016	144,032	313,114
Information technology	779,028	238,734	238,734	477,468	1,256,496
Professional services	2,941,724	1,443,110	1,165,589	2,608,699	5,550,423
Travel	152,197	13,235	55,144	68,379	220,576
Advertising	-	1,399,408	7,346,892	8,746,300	8,746,300
Insurance	125,834	56,982	54,607	111,589	237,423
Salaries and benefits	10,702,339	3,684,413	3,158,067	6,842,480	17,544,819
Office expenses	1,431,372	438,646	438,646	877,293	2,308,665
Other expenses	15,138	116,975	5,505	122,480	137,618
Depreciation of buildings and equipment	676,122	253,547	277,693	531,240	1,207,362
	<u>\$ 84,972,103</u>	<u>\$ 7,717,066</u>	<u>\$ 12,812,894</u>	<u>\$ 20,529,960</u>	<u>\$ 105,502,063</u>

Children International
Consolidated Statement of Cash Flows
Year Ended September 30, 2022

Operating Activities	
Increase in net assets	\$ (5,045,384)
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Unrealized loss on investments	12,108,728
Realized gain on investments	(1,859,254)
Gain on disposal of fixed assets	-
Change in annuity investments	(19,335)
Depreciation and amortization	1,207,362
Contributions received restricted for long-term investments	(129,265)
Changes in	
Accounts payable and accrued liabilities	(56,308)
Prepaid assets	4,395,675
Other assets	<u>246,987</u>
Net cash provided by operating activities	<u>10,849,206</u>
Investing Activities	
Purchase of investments	(52,964,612)
Sales of investments	45,138,923
Purchase of property and equipment	(1,649,817)
Proceeds from disposition of property and equipment	<u>-</u>
Net cash used in investing activities	<u>(9,475,506)</u>
Financing Activities	
Proceeds from contributions restricted for long-term investments	129,265
Payments on annuities	<u>(58,959)</u>
Net cash provided by financing activities	<u>70,306</u>
Increase in Cash and Cash Equivalents	1,444,006
Cash and Cash Equivalents, Beginning of Year	<u>8,121,830</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,565,836</u></u>
Supplemental Cash Flows Information	
Property and equipment financed by accounts payable	\$ (30,088)

Children International

Notes to Consolidated Financial Statements

September 30, 2022

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: Bringing people together to end poverty for good. 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 was 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 three 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, 2022

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, 2022, cash equivalents consisted primarily of money market funds with brokers.

At September 30, 2022, the Organization's cash accounts did not exceed federally insured limits.

Investments and Net 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 includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statement of activities with or without donor restrictions 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.

Beneficial Interest in Trust

The beneficial interest in trust assets are recorded at the Organization's percentage interest in the fair value of these trusts' assets, which approximates the present value of the estimated future cash receipts, in accordance with ASC 958, *Transfer of Assets to a Not-for-Profit Institute or Charitable Remainder Trust that Raises or Holds Contributions for Others*. The beneficial interest is included in other assets on the consolidated statement of financial position. At September 30, 2022, the value of beneficial interests included in other assets was \$504,202.

Children International
Notes to Consolidated Financial Statements
September 30, 2022

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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated from net assets without donor restrictions a board-designated endowment. Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained 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 revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions and are reported in the consolidated 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 revenue and net assets without donor restrictions.

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, 2022

Product Donations

In addition to receiving cash contributions, the Organization receives contributions of medical supplies, textbooks, clothing, shoes, soap, advertising, 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 \$18,809,214 in Public Support and Revenue and the same amount under Worldwide Program Services expense for the year ended September 30, 2022.

Prepaid Assets

The Organization has an agreement with a third-party vendor to significantly expand its ability to connect sponsors and children through a multi-year agreement. The remainder of this balance is miscellaneous prepaid expenses.

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. The consolidated statement of functional expenses presents the natural classification detail of expense by function. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Certain costs have been allocated among the program, management and general and securing financial support categories based on a square footage calculation and other methods.

New Sponsor Education and Recruitment

New sponsor education and recruitment costs are expensed as incurred.

Children International
Notes to Consolidated Financial Statements
September 30, 2022

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, 2022 is as follows:

	Balance, September 30, 2021	Additions	Transfers	Retirements	Balance, September 30, 2022
Land and land improvements	\$ 320,156	\$ -	\$ -	\$ -	\$ 320,156
Buildings and equipment	39,407,615	116,730	1,581,892	-	41,106,237
Computer conversion costs in progress	679,884	1,502,999	(1,581,892)	-	600,991
	40,407,655	1,619,729	-	-	42,027,384
Less accumulated depreciation	28,080,864	1,207,362	-	-	29,288,226
	<u>\$ 12,326,791</u>	<u>\$ 412,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,739,158</u>

Note 2: Investments

Investments at September 30, 2022 consisted of the following:

Money market funds and short-term	
U.S. government obligations	\$ 331,789
U.S. government obligations	1,008,593
Corporate bonds	926,656
Asset-backed bonds	8,110
Corporate stocks	7,451,094
Mutual funds	
Vanguard Total Stock Market Mutual Fund	8,960,752
Metropolitan West Unconstrained Bd 1	11,164,368
Diamond Hill Srt Dur Total Return	7,840,052
Doubleline Low Duration Bond CL1	4,302,691
Other mutual funds	19,833,042
Private equity investment partnerships	8,112,825
Limited partnership	2,239,177
	<u>\$ 72,179,149</u>
Total, at fair value	
	<u>\$ 67,187,155</u>
Total, at historical cost	

Children International
Notes to Consolidated Financial Statements
September 30, 2022

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

Investments	\$ 25,933,556
Gift annuity investments	831,248
Assets limited as to use	
Board-designated endowment	43,889,919
Donor-restricted endowment	993,735
Donor-restricted investments	<u>530,691</u>
	<u>\$ 72,179,149</u>

Investment return during 2022 consisted of the following:

Endowment interest and dividend income	\$ 979,284
Endowment realized gains	<u>2,242,516</u>
Total endowment investment gains	3,221,800
Annuity investment return	19,335
Interest and dividend income	1,001,711
Realized loss net	(383,262)
Investment management fees and expenses	(78,287)
Other	<u>(17,838)</u>
	3,763,459
Unrealized loss, net	<u>(12,108,728)</u>
	<u>\$ (8,345,269)</u>

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

Operating income	\$ 541,658
Other (non-operating loss)	<u>(8,886,927)</u>
	<u>\$ (8,345,269)</u>

Children International
Notes to Consolidated Financial Statements
September 30, 2022

Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consists of the following at September 30, 2022:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity investment partnerships (A)	\$ 8,112,825	\$ 2,793,741	N/A	N/A
Limited partnership (B)	2,239,177	62,500	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.

Note 3: Annuities Payable

Gift Annuities

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, 2022 of \$447,365, 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. The Organization is required by multiple states to set aside assets to satisfy reserve requirements. These reserve requirements vary by state, but the Organization records the largest liability of the states that require a reserve.

Children International
Notes to Consolidated Financial Statements
September 30, 2022

Note 4: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at September 30, 2022 were available for the following purposes or periods:

Subject to expenditure for specified purpose	
Future child sponsorship support	\$ 530,691
Endowments restricted by donors for educational scholarships	
Subject to endowment spending policy and appropriation for general use	
Accumulated gains	91,657
Endowment funds restricted in perpetuity	902,078
Not subject to spending policy or appropriation	
Beneficial interest in trusts included in other assets	<u>504,202</u>
	<u><u>\$ 2,028,628</u></u>

Net Assets Without Donor Restrictions

Net assets without donor restrictions at September 30, 2022 have been designated for the following purposes:

Undesignated	\$ 52,593,746
Designated by the board for endowment	<u>43,889,919</u>
Net assets without donor restrictions	<u><u>\$ 96,483,665</u></u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Satisfaction or purpose restrictions	
Benefits for sponsored children	\$ 115,294
Provide educational scholarships to children	<u>40,000</u>
	<u><u>\$ 155,294</u></u>

Children International
Notes to Consolidated Financial Statements
September 30, 2022

Note 5: Endowment

The Organization's governing body is subject to the *State of Missouri Prudent Management of Institutional Funds Act* (SPMIFA). As a result, the Organization classifies in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, 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 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 composition of net assets by type of endowment fund at September 30, 2022 was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 902,078	\$ 902,078
Accumulated investment gains	-	91,657	91,657
Board-designated endowment funds	<u>43,889,919</u>	<u>-</u>	<u>43,889,919</u>
Total endowment funds	<u>\$ 43,889,919</u>	<u>\$ 993,735</u>	<u>\$ 44,883,654</u>

Children International
Notes to Consolidated Financial Statements
September 30, 2022

Changes in endowment net assets for the year ended September 30, 2022 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 49,751,561	\$ 863,462	\$ 50,615,023
Investment return, net	(5,861,642)	41,008	(5,820,634)
Contributions	-	129,265	129,265
Appropriation of endowment assets for expenditures	-	(40,000)	(40,000)
Endowment net assets, end of year	<u>\$ 43,889,919</u>	<u>\$ 993,735</u>	<u>\$ 44,883,654</u>

Investment and Spending Policies

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 6: 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 did not contribute to CICO during the year ended September 30, 2022.

Children International
Notes to Consolidated Financial Statements
September 30, 2022

Note 7: 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 \$668,786 for the year ended September 30, 2022.

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 8: 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 unclassified 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.

Gift Annuity Liabilities

The present values of annuity obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

Contributions

Approximately 81 percent of all product donations contributions were received from two donors in 2022. Those donors represent approximately 15 percent of total revenues received in 2022.

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.

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Notes to Consolidated Financial Statements
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Note 9: Liquidity and Availability

Approximately 43 percent of the Organization’s investment portfolio consists of highly liquid investments; 85 percent of the portfolio’s investments may be redeemed at a future specified redemption date. Finally, certain investments (approximately 10 percent) in private equities, and private investments are subject to constraints that limit the Organization’s ability to withdraw capital after such investments are made or may limit the amount available for withdrawal at a given redemption date. These constraints may limit the Organization’s ability to respond quickly to changes in market conditions.

As of September 30, 2022, the following financial assets could readily be made available within one year of the consolidated unclassified statement of financial position to meet general expenditures:

Total financial assets	\$ 81,744,985
Donor-imposed restrictions:	
Funds subject to purpose restrictions	(530,691)
Endowments	<u>(993,735)</u>
Net financial assets after donor-imposed restrictions	80,220,559
Less:	
Board-designated endowment funds	(43,889,919)
Gift annuities and deposit plan trust funds	<u>(877,988)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 35,452,652</u></u>

The Organization receives significant contributions each year from donors, which are available to meet annual cash needs for general expenditures. Allocations to agencies are paid monthly over a 12-month period. During that same 12-month period, additional contributions are received from donors. All board-designated funds can be made available to meet operating needs if necessary. During the year ended September 30, 2022, the Organization was able to meet its cash needs utilizing designated reserves.

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

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Notes to Consolidated Financial Statements
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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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated unclassified 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, 2022:

	<u>Fair Value Measurements Using</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Investments Measured at NAV^(A)</u>
Money market funds and short-term					
U.S. government obligations	\$ 331,789	\$ 331,789			
U.S. government obligations	1,008,593	-	\$ 1,008,593		
Corporate bonds	926,656	-	926,656		
Asset-backed bonds	8,110	-	8,110		
Corporate stocks	7,451,094	7,451,094	-		
Mutual funds					
Vanguard Total Stock Market Mutual Fund	8,960,752	8,960,752	-		
Metropolitan West Unconstrained Bd 1	11,164,368	11,164,368	-		
Diamond Hill Srt Dur Total Return	7,840,052	7,840,052	-		
Doubleline Low Duration Bond CL1	4,302,691	4,302,691	-		
Other mutual funds	19,833,042	19,833,042	-		
Private equity investment partnerships measured at net asset value (A)	8,112,825	-	-		\$ 8,112,825
Limited partnership measured at net asset value (A)	2,239,177	-	-	\$ -	2,239,177
	<u>72,179,149</u>	<u>59,883,788</u>	<u>1,943,359</u>	<u>-</u>	<u>10,352,002</u>
Cash equivalents	8,900,795	8,900,795	-	-	-
Total fair value of recurring measurements	<u>\$ 81,079,944</u>	<u>\$ 68,784,583</u>	<u>\$ 1,943,359</u>	<u>\$ -</u>	<u>\$ 10,352,002</u>

(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 unclassified statement of financial position.

Children International
Notes to Consolidated Financial Statements
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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 unclassified 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, 2022.

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.

Cash Equivalents

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

Note 11: Contributed Nonfinancial Assets

Change in Accounting Principle

In 2022, Children International adopted ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* on a retrospective basis. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash or other financial assets in the consolidated statements of activities and disclosures within the notes to the consolidated financial statements about the valuation methodology for, use of, and donor-imposed restrictions associated with contributed nonfinancial assets. Adoption of ASU 2020-07 had no impact on previously reported total change in net assets.

For the year ended September 30, 2022, contributed nonfinancial assets recognized within the consolidated statements of activities included the following as further discussed in *Note 1*:

Product donations	<u>\$ 18,809,214</u>
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Children International
Notes to Consolidated Financial Statements
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Note 12: Subsequent Events

Subsequent events have been evaluated through December 15, 2022, which is the date the consolidated financial statements were available to be issued.

Other Information

Children International
Consolidating Statement of Financial Position
September 30, 2022

	Children International	Affiliates	Consolidated
Assets			
Cash and cash equivalents	\$ 9,563,894	\$ 1,942	\$ 9,565,836
Investments	25,933,556		25,933,556
Gift annuity investments	831,248		831,248
Assets limited as to use			
Board-designated endowment investments	43,889,919		43,889,919
Donor-restricted endowment investments	993,735		993,735
Donor-restricted investments	530,691		530,691
	<u>45,414,345</u>	<u>-</u>	<u>45,414,345</u>
Land, buildings and equipment, less accumulated depreciation of \$28,080,863	12,739,158		12,739,158
Prepaid assets	6,635,605		6,635,605
Other assets	999,547		999,547
	<u>\$ 102,117,353</u>	<u>\$ 1,942</u>	<u>\$ 102,119,295</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 3,143,387	\$ -	\$ 3,143,387
Liabilities under contracts and agreements			
Gift annuity funds	447,365		447,365
Deposit plan funds	16,250		16,250
	<u>3,607,002</u>	<u>-</u>	<u>3,607,002</u>
	<u>\$ 102,117,353</u>	<u>\$ 1,942</u>	<u>\$ 102,119,295</u>
Net Assets			
Without donor restrictions	96,481,723	1,942	96,483,665
With donor restrictions	2,028,628	-	2,028,628
	<u>98,510,351</u>	<u>1,942</u>	<u>98,512,293</u>
	<u>\$ 102,117,353</u>	<u>\$ 1,942</u>	<u>\$ 102,119,295</u>