

Christian Foundation for Children and Aging

*Financial Statements as of and for the
Years Ended December 31, 2004 and 2003 and
Independent Auditors' Report*

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Christian Foundation for Children and Aging
Kansas City, Kansas

We have audited the accompanying statements of financial position of the Christian Foundation for Children and Aging (the "Foundation") as of December 31, 2004 and 2003, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 17, 2005

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2004 AND 2003

ASSETS	2004	2003
CASH AND CASH EQUIVALENTS	\$11,939,378	\$ 4,074,927
INVESTMENTS	13,633,198	15,319,370
RECEIVABLES:		
Note receivable	162,735	232,588
Interest and other	72,897	129,291
PROPERTY AND EQUIPMENT—Net	5,640,216	4,947,057
OTHER ASSETS	<u>186,035</u>	<u>4,895,963</u>
TOTAL	<u>\$31,634,459</u>	<u>\$29,599,196</u>
LIABILITIES AND NET ASSETS		
LIABILITIES—		
Accounts payable and accrued expenses	<u>\$ 530,175</u>	<u>\$ 834,414</u>
Total liabilities	<u>530,175</u>	<u>834,414</u>
COMMITMENTS		
NET ASSETS:		
Unrestricted:		
Board designated—operating reserve	2,000,000	2,000,000
Board designated—headquarters building additions	1,536,986	1,810,384
Board designated—future capital equipment	200,000	200,000
Board designated—CASA software development		1,409,403
Board designated—CASA and other software upgrades	879,770	
Board designated—scholarship program	2,338,018	2,847,498
Undesignated (not currently available for expenditure due to amounts invested in property and equipment—net)	<u>5,640,216</u>	<u>4,947,057</u>
Total unrestricted net assets	12,594,990	13,214,342
Temporarily restricted net assets	<u>18,509,294</u>	<u>15,550,440</u>
Total net assets	<u>31,104,284</u>	<u>28,764,782</u>
TOTAL	<u>\$31,634,459</u>	<u>\$29,599,196</u>

See notes to financial statements.

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2004

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE:			
Public support:			
USA sponsorships	\$48,461,176	\$ 15,193,838	\$ 63,655,014
Canada and Spain sponsorships	887,840	85,162	973,002
Contributions	<u>1,811,500</u>	<u>6,593,230</u>	<u>8,404,730</u>
Total public support	51,160,516	21,872,230	73,032,746
Other revenue	675,378	9,807	685,185
Net assets released from restrictions:			
Satisfaction of program restrictions	5,977,559	(5,977,559)	
Expiration of time restrictions	<u>13,501,451</u>	<u>(13,501,451)</u>	
Total net assets released from restrictions	<u>19,479,010</u>	<u>(19,479,010)</u>	
TOTAL PUBLIC SUPPORT AND REVENUE	<u>71,314,904</u>	<u>2,403,027</u>	<u>73,717,931</u>
EXPENSES:			
Program expenses:			
USA program services	65,285,052		65,285,052
Canada program services	518,347		518,347
Spain program services	<u>372,980</u>		<u>372,980</u>
Total program expenses	<u>66,176,379</u>		<u>66,176,379</u>
Supporting services:			
Fund raising	2,276,415		2,276,415
General and administrative	<u>2,925,635</u>		<u>2,925,635</u>
Total supporting services	<u>5,202,050</u>		<u>5,202,050</u>
TOTAL EXPENSES	<u>71,378,429</u>		<u>71,378,429</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(63,525)	2,403,027	2,339,502
OTHER ACTIVITIES			
Reclassification of net assets (Note 1)	(555,827)	555,827	
NET ASSETS—Beginning of year	<u>13,214,342</u>	<u>15,550,440</u>	<u>28,764,782</u>
NET ASSETS—End of year	<u>\$ 12,594,990</u>	<u>\$ 18,509,294</u>	<u>\$ 31,104,284</u>

See notes to financial statements.

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2003

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE:			
Public support:			
USA sponsorships	\$49,140,566	\$14,948,067	\$64,088,633
Canada and Spain sponsorships	867,081	95,430	962,511
Contributions	<u>2,085,384</u>	<u>237,732</u>	<u>2,323,116</u>
Total public support	52,093,031	15,281,229	67,374,260
Other revenue	765,200	17,131	782,331
Net assets released from restrictions:			
Satisfaction of program restrictions	1,240,068	(1,240,068)	
Expiration of time restrictions	<u>11,991,110</u>	<u>(11,991,110)</u>	
Total net assets released from restrictions	<u>13,231,178</u>	<u>(13,231,178)</u>	
TOTAL PUBLIC SUPPORT AND REVENUE	<u>66,089,409</u>	<u>2,067,182</u>	<u>68,156,591</u>
EXPENSES:			
Program expenses:			
USA program services	58,755,690		58,755,690
Canada program services	528,857		528,857
Spain program services	<u>330,522</u>		<u>330,522</u>
Total program expenses	<u>59,615,069</u>		<u>59,615,069</u>
Supporting services:			
Fund raising	2,307,100		2,307,100
General and administrative	<u>2,636,500</u>		<u>2,636,500</u>
Total supporting services	<u>4,943,600</u>		<u>4,943,600</u>
TOTAL EXPENSES	<u>64,558,669</u>		<u>64,558,669</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,530,740	2,067,182	3,597,922
OTHER ACTIVITIES			
Reclassification of net assets (Note 1)	(2,157,680)	2,157,680	
NET ASSETS—Beginning of year	<u>13,841,282</u>	<u>11,325,578</u>	<u>25,166,860</u>
NET ASSETS—End of year	<u>\$13,214,342</u>	<u>\$15,550,440</u>	<u>\$28,764,782</u>

See notes to financial statements.

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2004

	Program Services	Supporting Services			Total
		Fund Raising	General and Administrative	Total Supporting Services	
Child, aging and local outreach support	\$ 61,000,355				\$ 61,000,355
Staff salaries and benefits	3,411,296	\$ 562,481	\$ 1,081,431	\$ 1,643,912	5,055,208
Advertising	2,303	358,173	4,027	362,200	364,503
Postage	596,994	61,498	613,845	675,343	1,272,337
Travel	104,845	259,404	1,339	260,743	365,588
Mission appeals stipends		586,453		586,453	586,453
Mission awareness and education	210,668	1,754	124	1,878	212,546
Printing and duplicating	315,985	92,903	285,859	378,762	694,747
Grants to parish missions		200,880		200,880	200,880
Bank service fees	139	133	735,329	735,462	735,601
Professional services	15,536	27,531	44,490	72,021	87,557
Supplies	40,411	30,470	15,138	45,608	86,019
Telephone	40,880	16,737	13,994	30,731	71,611
Insurance	26,444	4,557	9,355	13,912	40,356
Utilities	41,174	6,876	14,353	21,229	62,403
Facility maintenance	50,974	7,649	15,672	23,321	74,295
Equipment maintenance and purchases	31,782	5,915	11,747	17,662	49,444
Seminars, conferences and educational materials	3,701	5,946	2,637	8,583	12,284
Project retreats	5,706				5,706
Field audits	645				645
Photographic materials	54,628	673		673	55,301
Rent	17,651	17,695	5,759	23,454	41,105
Publications	309	982	1,480	2,462	2,771
Miscellaneous	825	537	7,058	7,595	8,420
Total before depreciation	65,973,251	2,249,247	2,863,637	5,112,884	71,086,135
Depreciation	203,128	27,168	61,998	89,166	292,294
TOTAL	\$ 66,176,379	\$ 2,276,415	\$ 2,925,635	\$ 5,202,050	\$ 71,378,429

See notes to financial statements.

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2003

	Program Services	Supporting Services			Total
		Fund Raising	General and Administrative	Total Supporting Services	
Child, aging and local outreach support	\$ 55,132,279				\$ 55,132,279
Staff salaries and benefits	2,862,487	\$ 487,651	\$ 908,748	\$ 1,396,399	4,258,886
Advertising	15,038	463,099	1,784	464,883	479,921
Postage	596,756	51,120	591,450	642,570	1,239,326
Travel	63,685	306,268	12,101	318,369	382,054
Mission appeals stipends	4,662	628,100		628,100	632,762
Mission awareness and education	106,968	4,355	1,919	6,274	113,242
Printing and duplicating	419,827	94,498	288,558	383,056	802,883
Grants to parish missions		150,000		150,000	150,000
Bank service fees			639,651	639,651	639,651
Professional services	762	17,779	79,862	97,641	98,403
Supplies	54,600	31,312	17,525	48,837	103,437
Telephone	39,412	14,382	13,947	28,329	67,741
Insurance	16,171	2,780	4,987	7,767	23,938
Utilities	29,048	4,905	10,241	15,146	44,194
Facility maintenance	32,091	5,458	11,187	16,645	48,736
Equipment maintenance and purchases	36,912	7,884	13,458	21,342	58,254
Seminars, conferences and educational materials	2,586	6,329	3,116	9,445	12,031
Project retreats	5,745				5,745
Field audits	13,196				13,196
Photographic materials	60,325	613		613	60,938
Rent	2,647	13,430	361	13,791	16,438
Publications	803	1,014	1,167	2,181	2,984
Miscellaneous	4,160	3,135	9,282	12,417	16,577
Total before depreciation	59,500,160	2,294,112	2,609,344	4,903,456	64,403,616
Depreciation	114,909	12,988	27,156	40,144	155,053
TOTAL	\$ 59,615,069	\$ 2,307,100	\$ 2,636,500	\$ 4,943,600	\$ 64,558,669

See notes to financial statements.

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,339,502	\$ 3,597,922
Adjustments to reconcile net assets to net cash provided by (used in) operating activities:		
Change in net unrealized gains on investments	50,746	(169,842)
Net realized (gains) losses on disposition of investments	(76,697)	17,767
Net realized gain on sale of property and equipment	(143)	
Depreciation	292,294	155,053
Changes in operating assets and liabilities:		
Interest and other receivables	56,393	(22,879)
Other assets	4,709,928	(4,751,693)
Accounts payable and accrued expenses	(304,239)	(82,975)
Net cash provided by (used in) operating activities	<u>7,067,784</u>	<u>(1,256,647)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments on note receivable	69,854	63,140
Property and equipment additions	(985,503)	(1,901,991)
Proceeds from sale of property and equipment	193	
Proceeds from maturities and sales of investments	9,215,097	5,648,931
Purchases of investments	<u>(7,502,974)</u>	<u>(13,101,805)</u>
Net cash provided by (used in) investing activities	<u>796,667</u>	<u>(9,291,725)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,864,451	(10,548,372)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>4,074,927</u>	<u>14,623,299</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 11,939,378</u>	<u>\$ 4,074,927</u>

See notes to financial statements.

CHRISTIAN FOUNDATION FOR CHILDREN AND AGING

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business—The Christian Foundation for Children and Aging (the “Foundation”) was organized on November 20, 1981 under the general not-for-profit laws of the State of Missouri and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation’s objectives are to promote the physical, mental, spiritual and social welfare of the poor, especially needy children and aging adults, and educating the public as to the living conditions, needs and potential of children and aging in economically developing countries.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid investments with original maturities of 90 days or less from the date of purchase.

Investments—Investments include U.S. Treasury bonds, notes, investment-grade corporate bonds, mutual funds, life insurance contracts, annuities, and common stock. Investments, other than annuities and life insurance contracts, are carried at fair value based on quoted market prices for those or similar securities, with unrealized and realized gains and losses recorded in the statements of activities. Annuities are carried at contract value plus accrued interest. Life insurance contracts are recorded at the cash surrender value of the policy.

Property and Equipment—Property and equipment is stated at cost and is depreciated using the straight-line method over estimated lives of 40 years for the buildings and three to five years for furniture and equipment.

The Foundation capitalizes costs associated with software development when the preliminary project stage is completed. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purposes. Research and other preliminary costs, as well as computer software maintenance costs, related to software development are expensed as incurred.

Construction in progress represents capitalized building improvements not yet completed at December 31, 2004 and 2003 and capitalized software costs associated with the development of a proprietary sponsorship and donor information management system (CASA) not yet completed at December 31, 2003. As of December 31, 2004 all costs pertaining to the development of CASA had been incurred.

The Foundation, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of its assets might not be recoverable, and has concluded no financial statement adjustment is required as of December 31, 2004 and 2003.

Donated Services—No amounts have been reflected in the financial statements for donated services. However, time and resources have been contributed by volunteers in furtherance of the Foundation's objectives. Management estimates the value of the approximately 11,611 hours of services donated in 2004 at approximately \$147,192 and 18,493 hours of services donated in 2003 at approximately \$219,199.

Contributions—Amounts received or promised for the sponsorship of individual children are recognized as revenue when received. The Foundation reports sponsorships and donations 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 its purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Without explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unrestricted Net Assets—Unrestricted net assets represent sponsorship and support services associated with funding the Foundation's operating needs and for which all donor imposed restrictions, if any, have been satisfied. Additionally, certain unrestricted net assets have been designated by the Board of Directors for specific purposes and are included in the statements of financial position as Board designated, unrestricted net assets.

During 2004 and 2003, the Foundation performed an analysis of its net assets to determine whether they were appropriately classified between unrestricted and temporarily restricted. As a result of this analysis the Foundation reclassified \$555,827 and \$2,157,680, respectively, from unrestricted net assets to temporarily restricted net assets.

Temporarily Restricted Net Assets—Temporarily restricted net assets represent sponsorship payments and other contributions which are restricted due to donor-imposed time or other restrictions. Such restrictions generally expire or are otherwise satisfied within the twelve months following receipt. The Foundation had temporarily restricted net assets of \$18,509,294 and \$15,550,440 as of December 31, 2004 and 2003, respectively.

Cost Allocations—The Foundation allocates certain fund raising costs based on the criteria of purpose, audience and content. If any of the criteria are not met, all costs of the activity are reported as fund raising costs.

Foreign Affiliations—The Foundation has expended monies in prior years to assist in the start-up of similar organizations in Canada and Spain. Such amounts were expensed when incurred. Contributions are received from Child Care International (formerly CFCA-Canada) and CFCA/Spain, the Spanish affiliate. Such contributions are disbursed by the Foundation as child and aging support. Because the Foundation does not exercise any control over Child Care International and CFCA/Spain, the operations of these entities are not included in these financial statements.

Management 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 support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. INVESTMENTS

Investments consist of the following as of December 31:

	2004		2003	
	Cost	Carrying Value	Cost	Carrying Value
Investments carried at fair value:				
U.S. Treasury bonds and notes	\$ 6,450,000	\$ 6,473,581	\$ 8,600,000	\$ 8,742,185
Corporate bonds	100,000	98,921	850,000	848,048
Common stock	2,838,992	3,141,489	1,952,711	2,195,620
Growth and income mutual funds	148,371	163,237	233,953	240,776
Investments carried at contract value:				
Annuities	3,720,081	3,720,081	3,262,680	3,262,680
Life Insurance—cash surrender value	<u>35,889</u>	<u>35,889</u>	<u>30,061</u>	<u>30,061</u>
Total	<u>\$ 13,293,333</u>	<u>\$ 13,633,198</u>	<u>\$ 14,929,405</u>	<u>\$ 15,319,370</u>

Included in other revenue are interest and dividend income aggregating \$485,580 and \$528,490, net unrealized (losses) gains aggregating (\$50,746) and \$169,842, and realized gains (losses) aggregating \$76,697 and (\$17,767) for the years ended December 31, 2004 and 2003, respectively.

3. PROPERTY AND EQUIPMENT

	2004	2003
Land	\$ 92,913	\$ 92,913
Buildings	2,940,653	2,063,399
CASA	2,755,623	
Furniture and equipment	861,562	725,548
Construction in progress	<u>29,949</u>	<u>2,859,795</u>
	6,680,700	5,741,655
Accumulated depreciation	<u>(1,040,484)</u>	<u>(794,598)</u>
	<u>\$ 5,640,216</u>	<u>\$ 4,947,057</u>

4. RETIREMENT PLAN

The Foundation's defined contribution plan (the "Plan") covers all eligible employees 18 years of age and older. Under the Plan, the Foundation contributes an amount equal to six percent of each participant's compensation. Participants are fully vested upon entry into the Plan. Total Plan expense was \$239,419 and \$200,180 for the years ended December 31, 2004 and 2003, respectively.

5. RELATED PARTIES

Child Care International and CFCA/Spain send sponsorship contributions to the Foundation for distribution to the various Foundation missions. These funds are included in sponsorship support. Total sponsorship contributions received from Child Care International amounted to \$570,254 and \$587,460 during the years ended December 31, 2004 and 2003, respectively. Total sponsorship contributions received from CFCA/Spain amounted to \$402,748 and \$375,051 during the years ended December 31, 2004 and 2003, respectively.

6. OPERATING LEASES

The Foundation leases certain property under operating leases. Rental expense under these leases, as well as other month-to-month leases, was \$38,421 in 2004 and \$16,438 in 2003. Future minimum rental commitments are as follows:

2005	<u>\$ 6,639</u>
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7. SPECIAL GIFTS AND CONCENTRATION OF CREDIT RISK

During 1995, the Foundation received a contribution in the form of a third-party note receivable. The note was recorded as a contribution equal to \$606,505, which represented the unpaid principal amount of the note which management believes approximated fair value at the date of contribution. The note is secured by real estate, bears interest at 10 percent and is payable in monthly installments of \$7,522 through December 1, 2006. The unpaid principal balance as of December 31, 2004 and 2003 was \$162,735 and \$232,588, respectively. While management believes that the third party note receivable will be fully collectible based on timely receipt of payments and past fulfillment of obligations, the amount the Foundation will ultimately realize may differ from management's expectation.

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