

ALL CHURCH HOME FOR CHILDREN, INC.

FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2002

ALL CHURCH HOME FOR CHILDREN, INC.
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DECEMBER 31, 2002

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We have audited the accompanying statement of financial position of All Church Home for Children, Inc. (the "Home") as of December 31, 2002, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Home's 2001 financial statements that were audited by other auditors whose report dated May 22, 2002, expressed an unqualified opinion on those statements.

Home builders

Retail

Manufacturing

Health Care

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Contractors

Financial institutions

Software firms

Insurance agencies

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of All Church Home for Children, Inc. as of December 31, 2002, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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ALL CHURCH HOME FOR CHILDREN, INC.
 STATEMENT OF FINANCIAL POSITION
 DECEMBER 31, 2002
 WITH COMPARATIVE TOTALS FOR 2001

ASSETS

| <u>ASSETS</u> | 2002 | 2001 |
|----------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 367,222 | \$ 343,695 |
| Accounts receivable | 17,416 | 29,952 |
| Accrued interest receivable | 245,224 | 319,077 |
| Prepaid expenses | 45,491 | 22,275 |
| Marketable investment securities | 41,245,502 | 50,531,136 |
| Beneficial interest in trust | 4,564,380 | 5,254,124 |
| Other investments | 2,033,207 | 1,852,865 |
| Property and equipment | 1,547,330 | 1,649,513 |
| <u>TOTAL ASSETS</u> | \$ 50,065,772 | \$ 60,002,637 |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------|----------------------|
| <u>LIABILITIES</u> | | |
| Accounts payable | \$ 35,088 | \$ 61,083 |
| Total Liabilities | 35,088 | 61,083 |
| <u>NET ASSETS</u> | | |
| Unrestricted | 49,556,742 | 59,441,538 |
| Temporarily restricted | 473,942 | 500,016 |
| Total Net Assets | 50,030,684 | 59,941,554 |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | \$ 50,065,772 | \$ 60,002,637 |

The accompanying notes to financial statements
 are an integral part of these statements.

ALL CHURCH HOME FOR CHILDREN, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002
WITH COMPARATIVE TOTALS FOR 2001

| | Unrestricted | Temporarily Restricted | Totals | |
|---|---------------|---------------------------|---------------|---------------|
| | | | 2002 | 2001 |
| <u>PUBLIC SUPPORT</u> | | | | |
| Contributions | \$ 98,989 | \$ 65,075 | \$ 164,064 | \$ 130,806 |
| Estates and trusts | 43,200 | | 43,200 | 67,437 |
| Special events, net of direct costs of \$40,395 | 41,946 | | 41,946 | 15,000 |
| Total Public Support | 184,135 | 65,075 | 249,210 | 213,243 |
| <u>REVENUE AND INVESTMENT RETURNS</u> | | | | |
| Program service fees | 112,950 | | 112,950 | 176,917 |
| Other income | 8,161 | | 8,161 | 5,505 |
| Mineral and real estate properties, net of direct expenses of \$61,687 | 624,691 | | 624,691 | 858,304 |
| Investment income, net of investment advisory fees of \$241,836 | 1,117,112 | | 1,117,112 | 1,179,310 |
| Net realized and unrealized losses on investments | (8,100,337) | | (8,100,337) | (6,739,442) |
| Change in value of beneficial interest in trust assets | (502,615) | | (502,615) | (16,045) |
| Total Revenue and Investment Returns | (6,740,038) | -0- | (6,740,038) | (4,535,451) |
| Net Assets Released From Restrictions | 91,149 | (91,149) | -0- | -0- |
| Total Support, Revenue and Investment Returns | (6,464,754) | (26,074) | (6,490,828) | (4,322,208) |
| <u>EXPENSES</u> | | | | |
| Program services | 2,680,268 | | 2,680,268 | 2,056,118 |
| Fundraising | 76,939 | | 76,939 | 23,438 |
| General and administrative | 662,835 | | 662,835 | 964,005 |
| Total Expenses | 3,420,042 | -0- | 3,420,042 | 3,043,561 |
| <u>CHANGE IN NET ASSETS</u> | (9,884,796) | (26,074) | (9,910,870) | (7,365,769) |
| <u>NET ASSETS</u> - Beginning of Year | 59,441,538 | 500,016 | 59,941,554 | 67,307,323 |
| <u>NET ASSETS</u> - End of Year | \$ 49,556,742 | \$ 473,942 | \$ 50,030,684 | \$ 59,941,554 |

The accompanying notes to financial statements
are an integral part of these statements.

ALL CHURH HOME FOR CHILDREN, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002
WITH COMPARATIVE TOTALS FOR 2001

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | 2002 | 2001 |
|--|----------------|----------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ (9,910,870) | \$ (7,365,769) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Net realized and unrealized losses on investments | 8,100,337 | 6,739,442 |
| Non-cash change in value of beneficial interest in trust assets | 689,744 | 416,465 |
| Depreciation | 202,523 | 185,432 |
| Temporarily restricted contributions | (65,075) | (105,279) |
| Loss on sale of fixed assets | 1,821 | 6,589 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 12,536 | (15,992) |
| Accrued interest receivable | 73,853 | (29,928) |
| Prepaid expenses | (23,216) | (12,417) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (25,995) | 54,193 |
| | (944,342) | (127,264) |
| Net Cash Used in Operating Activities | | |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchases of property and equipment | (102,969) | (229,771) |
| Proceeds from sale of fixed assets | 808 | 1,000 |
| Proceeds from sale of marketable securities | 11,864,209 | 10,015,096 |
| Purchase of marketable securities | (9,576,482) | (10,468,563) |
| Net (increase) decrease in short-term investment funds | (1,002,772) | 235,886 |
| Purchase of other investments | (280,000) | (120,000) |
| Proceeds from sale of other investments | -0- | 7,640 |
| | 902,794 | (558,712) |
| Net Cash Provided by (Used in) Investing Activities | | |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Temporarily restricted contributions | 65,075 | 105,279 |
| | 65,075 | 105,279 |
| Net Cash Provided by Financing Activities | | |
| <u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u> | 23,527 | (580,697) |
| <u>CASH AND CASH EQUIVALENTS - Beginning of year</u> | 343,695 | 924,392 |
| <u>CASH AND CASH EQUIVALENTS - End of year</u> | \$ 367,222 | \$ 343,695 |

The accompanying notes to financial statements
are an integral part of these statements.

**ALL CHURCH HOME FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2002
WITH COMPARATIVE TOTALS FOR 2001**

| | Program Services | Fund Raising | General and Administrative | Totals | |
|--|---------------------|------------------|----------------------------------|---------------------|---------------------|
| | | | | 2002 | 2001 |
| Salaries and wages | \$ 1,365,109 | \$ 52,021 | \$ 309,870 | \$ 1,727,000 | \$ 1,548,877 |
| Payroll taxes and employee benefits | 354,712 | 13,412 | 77,134 | 445,258 | 325,288 |
| Total Personnel Expense | 1,719,821 | 65,433 | 387,004 | 2,172,258 | 1,874,165 |
| Professional fees | 34,011 | 756 | 70,171 | 104,938 | 125,427 |
| Investment advisory fees | | | 241,836 | 241,836 | 281,907 |
| Foster care programs | 49,221 | | | 49,221 | 14,640 |
| Other taxes | | | 61,687 | 61,687 | 59,220 |
| Liability insurance | 22,484 | | 34,775 | 57,259 | 44,901 |
| Utilities | 90,462 | | 6,010 | 96,472 | 120,652 |
| Telephone | 25,188 | | 4,567 | 29,755 | 29,225 |
| Occupancy | 47,842 | | 6,524 | 54,366 | 72,389 |
| Supplies | 56,689 | | 8,997 | 65,686 | 67,562 |
| Vehicles | 53,225 | | 1,441 | 54,666 | 55,782 |
| Food | 91,413 | | 2,919 | 94,332 | 97,121 |
| Clothing and personal care | 24,629 | | | 24,629 | 27,634 |
| Medical care | 112,460 | | 36 | 112,496 | 73,329 |
| Youth and activities | 67,886 | | | 67,886 | 53,952 |
| Family assistance | 12,473 | | | 12,473 | 11,572 |
| Educational expenses | 14,616 | | 1,957 | 16,573 | 8,892 |
| Development and promotion | | 51,145 | 49,102 | 100,247 | 57,217 |
| Human resources | 46,812 | | 21,384 | 68,196 | 60,584 |
| Board expenses | | | 17,257 | 17,257 | 9,009 |
| Dues | 14,767 | | 1,617 | 16,384 | 16,353 |
| Farm and animal expenses | 9,851 | | | 9,851 | 14,540 |
| Miscellaneous | 3,906 | | 29,063 | 32,969 | 23,184 |
| Total Expenses Before Depreciation | 2,497,756 | 117,334 | 946,347 | 3,561,437 | 3,199,257 |
| Depreciation of buildings and equipment | 182,512 | | 20,011 | 202,523 | 185,431 |
| Total Expenses | 2,680,268 | 117,334 | 966,358 | 3,763,960 | 3,384,688 |
| Less: Expenses included with revenues on the statement of activities | | | | | |
| Special event expenses | | (40,395) | | (40,395) | -0- |
| Mineral and real estate properties | | | (61,687) | (61,687) | (59,220) |
| Investment advisory fees | | | (241,836) | (241,836) | (281,907) |
| Total Expenses Included in the Expense Section of the Statement of Activities | \$ 2,680,268 | \$ 76,939 | \$ 662,835 | \$ 3,420,042 | \$ 3,043,561 |

The accompanying notes to financial statements are an integral part of these statements.

ALL CHURCH HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - ORGANIZATION AND OPERATIONS

The All Church Home For Children, Inc. (the "Home") was established in 1915 by the Women's Federation of Churches to receive and manage donations of cash and property, and to distribute resources exclusively for the purpose of caring for dependant and neglected children.

The Home is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. This section exempts the Home from taxes on income. Accordingly, no provision for income taxes has been made in the financial statements. The Internal Revenue Service has classified the Home as a private foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Home is presented to assist in understanding the Home's financial statements. The financial statements and notes are representations of the Home's management who are responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

FINANCIAL STATEMENT PRESENTATION

The Home follows the guidance in Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Home is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The fund groups are reported in the three classes of net assets as follows:

Unrestricted Net Assets – These funds have no external restrictions and can be used for any purpose designated by the Board.

Temporarily Restricted Net Assets – These funds generally represent funds for which the donor has limited the use of the funds by stipulating how or when the funds are to be used. The restrictions are satisfied either by passage of time or by actions of the Home.

Permanently Restricted Net Assets – These are funds that have been restricted by the donor and cannot be satisfied by the passage of time or by actions of the Home. The Home has no permanently restricted net assets.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Home considers only cash in banks and on hand as cash and cash equivalents. These cash equivalents are financial instruments that potentially subject the Home to concentrations of credit risk. The Home places its cash with high-credit-quality financial institutions and periodically maintains deposits in amounts that exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote.

ALL CHURCH HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE

Contributions are recognized when unconditional commitments are received and recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

CONTRIBUTED FACILITIES

The Home utilizes the J. Garland Tillar Memorial Building and the J. Garland Tillar Memorial Recreation Building without charge. The buildings are not carried as assets since the J. Garland Tillar Trust retains ownership.

The Home also has leased ranch land and improvements located near Stephenville, Texas, from Texas Youth Development Corporation for \$10 per year for a three-year period beginning October 29, 1999. The Home has an option to renew this lease annually through 2005 on the same terms.

No amounts related to the above have been reflected in the statement of activity as support or expense because no objective basis is available to measure the value of such use.

PROPERTY AND EQUIPMENT

Expenditures for buildings and equipment in excess of \$250 and having a useful life of one year or more are capitalized and recorded on the Home's books at cost. Donations of significant property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Home reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Home reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts. Resulting gains or losses are included in income.

Depreciation of buildings and equipment is computed on the straight-line basis over their estimated useful lives. The estimated useful lives range from five to thirty years. Depreciation expense for 2002 amounted to \$202,523 and is shown on the accompanying Statement of Functional Expenses.

INVESTMENTS IN MARKETABLE SECURITIES

The Home follows the guidance in SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Investment income includes interest and dividends net of investment expenses and is included in the Statement of Activities as increases in unrestricted net assets, unless the donor or law restricts the income or loss. Unrealized gains and losses are included in the change in net assets.

ALL CHURCH HOME FOR CHILDREN, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

OTHER INVESTMENTS

The Home's investments in real estate and mineral interests were acquired by contribution and recorded at the estimated fair market value (cost) at the date of receipt. Accordingly, the mineral interests have been amortized on the basis of cost recovery. These other investments are carried at the lower of amortized cost or market value.

CONCENTRATION OF CREDIT RISK

The Home currently invests primarily in U.S. Government obligations and corporate stocks and bonds. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Home. Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met. During year 2002, \$26,834 of donated medical related services was recognized as contributions in the Statement of Activities.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program, fund-raising and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fund-raising activities benefited.

COMPARATIVE DATA

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Home's financial statements for the year ended December 31, 2001, from which the summarized information was derived.

NOTE 3 - BENEFICIAL INTEREST IN TRUST

The Home has a 50% beneficial interest in a trust. The Home's share of the net assets of the Trust is reflected at estimated fair value. The composition of the Home's share of the net assets of the Trust as of December 31, 2002 is as follows:

| | |
|------------------------------------|---------------------|
| Marketable short-term investments | \$ 291,561 |
| Marketable fixed income securities | 1,543,078 |
| Marketable equity securities | 2,501,421 |
| Real estate and other | <u>228,320</u> |
| Total Beneficial Interest in Trust | <u>\$ 4,564,380</u> |

The Home received cash distributions of \$187,129 and recognized an unrealized decline in the value of the trust of \$689,744 during the year ended December 31, 2002 resulting in a net decline in value of beneficial interest in trust assets of \$502,615.

ALL CHURCH HOME FOR CHILDREN, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 4 - INVESTMENTS

Investments in marketable equity and debt securities are carried at fair value and are comprised of the following as of December 31, 2002:

| | <u>Fair Value</u> | <u>Cost</u> | <u>Cumulative Unrealized Appreciation (Depreciation)</u> |
|----------------------------------|--------------------------|--------------------------|--|
| Short-term investment funds | \$ 1,883,314 | \$ 1,883,314 | \$ -0- |
| U. S. Government debt securities | 3,792,555 | 3,673,110 | 119,445 |
| Corporate bonds | 12,558,548 | 11,394,383 | 1,164,165 |
| Equity securities | <u>23,011,085</u> | <u>23,716,270</u> | <u>(705,185)</u> |
| Total Marketable Securities | <u>\$ 41,245,502</u> | <u>\$ 40,667,077</u> | <u>\$ 578,425</u> |

Investments in real estate, mineral and other investments are carried at the lower of cost or fair market value net of accumulated cost recovery and are comprised of the following as of December 31, 2002:

| | <u>Fair Value</u> | <u>Cost</u> | <u>Book Value</u> |
|---|-------------------------|-------------------------|-------------------------|
| Real estate and oil and gas mineral interests | \$ 2,086,437 | \$ 1,732,865 | \$ 1,732,865 |
| Limited partnership investment fund | <u>300,342</u> | <u>400,000</u> | <u>300,342</u> |
| Total Other Investments | <u>\$ 2,386,779</u> | <u>\$ 2,132,865</u> | <u>\$ 2,033,207</u> |

The following schedules summarize the investment returns on all investments, all of which are unrestricted, for the year ended December 31, 2002:

| | |
|---|---------------------------|
| Dividends | \$ 312,525 |
| Interest | 1,046,423 |
| Less: Investment advisory fees | <u>(241,836)</u> |
| Net Investment Income | <u>\$ 1,117,112</u> |
| Net realized losses on marketable securities | \$ (879,084) |
| Net unrealized loss on limited partnership | (99,958) |
| Net unrealized losses on marketable securities | <u>(7,121,295)</u> |
| Net Realized and Unrealized Losses on Investments | <u>\$ (8,100,337)</u> |
| Mineral income | \$ 617,538 |
| Real estate income | 68,840 |
| Less: Mineral expense | (49,729) |
| Less: Real estate expense | <u>(11,958)</u> |
| Net Mineral and Real Estate Income | <u>\$ 624,691</u> |

ALL CHURCH HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following as of December 31, 2002:

| | |
|-----------------------------------|-------------------------|
| Land | \$ 716,959 |
| Buildings and improvements | 2,023,998 |
| Furniture, fixtures and equipment | 503,150 |
| Automobiles | <u>251,214</u> |
| Total Property and Equipment | 3,495,321 |
| Less: Accumulated Depreciation | <u>(1,947,991)</u> |
| Net Property and Equipment | <u>\$ 1,547,330</u> |

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2002:

| | |
|--|-----------------------|
| Contributions restricted for future building expansion | \$ 399,978 |
| Providing care to children | <u>73,964</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 473,942</u> |

NOTE 7 – EMPLOYEE BENEFIT PLAN

The Home sponsors a 401(k) plan for all qualified employees. The Home matches employee contributions at a rate of \$.50 for each employee dollar up to 6% of the employee's salary. Employer contributions to the Plan amounted to \$26,480 during the year ended December 31, 2002.

NOTE 8 – COMMITMENT

The Home has committed to invest a total of \$2,000,000 in the BA 2001 Cayman Fund Ltd. As of December 31, 2002 the Home has invested \$400,000 in this fund of funds limited partnership.