

**ALL CHURCH HOME FOR CHILDREN, INC.**

**FINANCIAL STATEMENTS AND AUDITORS' REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2003**

**ALL CHURCH HOME FOR CHILDREN, INC.  
CONTENTS  
DECEMBER 31, 2003**

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>AUDITED FINANCIAL STATEMENTS</b>	
Statement of Financial Position.....	2
Statement of Activities .....	3
Statement of Cash Flows.....	4
Statement of Functional Expenses.....	5
Notes to Financial Statements .....	6



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February 27, 2004

The Board of Directors  
All Church Home For Children, Inc.  
Fort Worth, Texas

**Experienced with  
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*Oil & gas*

*Home builders*

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### Independent Auditors' Report

We have audited the accompanying statement of financial position of All Church Home for Children, Inc. (the "Home") as of December 31, 2003, 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 2002 financial statements and, in our report dated May 22, 2003, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of All Church Home for Children, Inc. as of December 31, 2003, 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.

*Sanford, Baumeister & Frazier, P.C.*

SANFORD, BAUMEISTER & FRAZIER, P.C.

**ALL CHURCH HOME FOR CHILDREN, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2003**  
**WITH COMPARATIVE TOTALS FOR 2002**

**ASSETS**

	<b>2003</b>	<b>2002</b>
<u><b>ASSETS</b></u>		
Cash and cash equivalents	\$ 202,579	\$ 367,222
Accounts receivable	31,069	17,416
Accrued interest receivable	262,227	245,224
Prepaid expenses	99,302	45,491
Marketable investment securities	46,354,675	41,245,502
Beneficial interest in trust	5,377,084	4,564,380
Other investments	2,432,865	2,033,207
Property and equipment	1,472,221	1,547,330
<u><b>TOTAL ASSETS</b></u>	<u>\$ 56,232,022</u>	<u>\$ 50,065,772</u>

**LIABILITIES AND NET ASSETS**

<u><b>LIABILITIES</b></u>		
Accounts payable	\$ 35,780	\$ 35,088
Total Liabilities	35,780	35,088
<u><b>NET ASSETS</b></u>		
Unrestricted	55,663,317	49,556,742
Temporarily restricted	532,925	473,942
Total Net Assets	56,196,242	50,030,684
<u><b>TOTAL LIABILITIES AND NET ASSETS</b></u>	<u>\$ 56,232,022</u>	<u>\$ 50,065,772</u>

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, 2003**  
**WITH COMPARATIVE TOTALS FOR 2002**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2003</u>	<u>2002</u>
<b><u>PUBLIC SUPPORT</u></b>				
Contributions	\$ 109,010	\$ 147,547	\$ 256,557	\$ 164,064
Estates and trusts	178,200		178,200	43,200
Special events, net of direct costs of \$48,526	69,078	20,337	89,415	41,946
Total Public Support	356,288	167,884	524,172	249,210
<b><u>REVENUE AND INVESTMENT RETURNS</u></b>				
Program service fees	312,283		312,283	112,950
Other income	5,457		5,457	8,161
Mineral and real estate properties, net of direct expenses of \$27,632	803,712		803,712	624,691
Investment income, net of investment advisory fees of \$246,914	1,101,062	208	1,101,270	1,117,112
Net realized and unrealized gains and (losses) on investments	5,896,510		5,896,510	(8,100,337)
Change in value of beneficial interest in trust assets	1,200,010		1,200,010	(502,615)
Total Revenue and Investment Returns	9,319,034	208	9,319,242	(6,740,038)
Net Assets Released From Restrictions	109,109	(109,109)	-	-
Total Support, Revenue and Investment Returns	9,784,431	58,983	9,843,414	(6,490,828)
<b><u>EXPENSES</u></b>				
Program services	3,142,638		3,142,638	2,680,268
Fundraising	186,573		186,573	76,939
General and administrative	348,645		348,645	662,835
Total Expenses	3,677,856	-	3,677,856	3,420,042
<b><u>CHANGE IN NET ASSETS</u></b>	6,106,575	58,983	6,165,558	(9,910,870)
<b><u>NET ASSETS</u></b> - Beginning of Year	49,556,742	473,942	50,030,684	59,941,554
<b><u>NET ASSETS</u></b> - End of Year	\$ 55,663,317	\$ 532,925	\$ 56,196,242	\$ 50,030,684

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, 2003  
WITH COMPARATIVE TOTALS FOR 2002**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<b>2003</b>	<b>2002</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 6,165,558	\$ (9,910,870)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) and losses on investments	(5,896,510)	8,100,337
Non-cash change in value of beneficial interest in trust assets	(812,704)	689,744
Depreciation	174,663	202,523
Temporarily restricted contributions	(167,884)	(65,075)
Loss on sale of fixed assets	-	1,821
(Increase) decrease in operating assets:		
Accounts receivable	(13,653)	12,536
Accrued interest receivable	(17,003)	73,853
Prepaid expenses	(53,811)	(23,216)
Increase (decrease) in operating liabilities:		
Accounts payable	692	(25,995)
Net Cash Used in Operating Activities	(620,652)	(944,342)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of property and equipment	(73,697)	(102,969)
Construction in progress	(25,857)	-
Proceeds from sale of fixed assets	-	808
Proceeds from sale of marketable securities	9,229,298	11,864,209
Purchase of marketable securities	(9,115,947)	(9,576,482)
Net (increase) decrease in short-term investment funds	529,286	(1,002,772)
Purchase of other investments	(300,000)	(280,000)
Proceeds from sale of other investments	45,042	-
Net Cash Provided by Investing Activities	288,125	902,794
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Temporarily restricted contributions	167,884	65,075
Net Cash Provided by Financing Activities	167,884	65,075
<b><u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u></b>	(164,643)	23,527
<b><u>CASH AND CASH EQUIVALENTS</u></b> - Beginning of year	367,222	343,695
<b><u>CASH AND CASH EQUIVALENTS</u></b> - End of year	\$ 202,579	\$ 367,222

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, 2003  
WITH COMPARATIVE TOTALS FOR 2002**

	Program Services	Fund Raising	General and Administrative	Totals	
				2003	2002
Salaries and wages	\$ 1,642,341	\$ 76,517	\$ 170,542	\$ 1,889,400	\$ 1,727,000
Payroll taxes and employee benefits	479,636	22,690	57,939	560,265	445,258
<b>Total Personnel Expense</b>	<b>2,121,977</b>	<b>99,207</b>	<b>228,481</b>	<b>2,449,665</b>	<b>2,172,258</b>
Professional fees	85,518	5,205	10,028	100,751	104,938
Investment advisory fees			246,914	246,914	241,836
Foster care programs	79,148			79,148	49,221
Other taxes			27,632	27,632	61,687
Liability insurance	81,504		14,591	96,095	57,259
Utilities	124,923		9,259	134,182	96,472
Telephone	29,194		2,164	31,358	29,755
Occupancy	44,851	15	3,310	48,176	54,366
Supplies	61,411		4,269	65,680	65,686
Vehicles	55,339		2,701	58,040	54,666
Food	76,665		529	77,194	94,332
Clothing and personal care	23,720			23,720	24,629
Medical care	65,072			65,072	112,496
Youth and activities	49,283			49,283	67,886
Family assistance	11,590			11,590	12,473
Educational expenses	9,057	115		9,172	16,573
Development and promotion		97,239	21,705	118,944	100,247
Human resources	34,422	714	8,350	43,486	68,196
Board expenses		104	9,625	9,729	17,257
Dues	24,047		1,032	25,079	16,384
Farm and animal expenses	7,331			7,331	9,851
Capital campaign		32,500		32,500	-
Miscellaneous	390		15,134	15,524	32,969
<b>Total Expenses Before Depreciation</b>	<b>2,985,442</b>	<b>235,099</b>	<b>605,724</b>	<b>3,826,265</b>	<b>3,561,437</b>
Depreciation of buildings and equipment	157,196		17,467	174,663	202,523
<b>Total Expenses</b>	<b>3,142,638</b>	<b>235,099</b>	<b>623,191</b>	<b>4,000,928</b>	<b>3,763,960</b>
Less: Expenses included with revenues on the statement of activities					
Special event expenses		(48,526)		(48,526)	(40,395)
Mineral and real estate properties			(27,632)	(27,632)	(61,687)
Investment advisory fees			(246,914)	(246,914)	(241,836)
<b>Total Expenses Included in the Expense Section of the Statement of Activities</b>	<b>\$ 3,142,638</b>	<b>\$ 186,573</b>	<b>\$ 348,645</b>	<b>\$ 3,677,856</b>	<b>\$ 3,420,042</b>

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, 2003**

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**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 dependent 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.

**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, 2003**

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**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 \$500 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 2003 amounted to \$174,663 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, 2003**

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**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 2003, \$19,207 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, 2002, 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, 2003 is as follows:

Marketable short-term investments	\$ 353,485
Marketable fixed income securities	1,416,279
Marketable equity securities	3,373,866
Real estate and other	<u>233,454</u>
Total Beneficial Interest in Trust	<u>\$ 5,377,084</u>

The Home received cash distributions of \$387,306 and recognized an unrealized increase in the value of the trust of \$812,704 during the year ended December 31, 2003 resulting in a net increase in value of beneficial interest in trust assets of \$1,200,010.

**ALL CHURCH HOME FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**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, 2003:

	<u>Fair Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Short-term investment funds	\$ 1,352,878	\$ 1,352,878	\$ -0-
U. S. Government debt securities	3,261,316	3,218,763	42,553
Corporate bonds	12,782,446	11,606,878	1,175,568
Equity securities	<u>28,958,035</u>	<u>22,383,772</u>	<u>6,574,263</u>
Total Marketable Investment Securities	<u>\$ 46,354,675</u>	<u>\$ 38,562,291</u>	<u>\$ 7,792,384</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, 2003:

	<u>Fair Value</u>	<u>Cost</u>	<u>Book Value</u>
Real estate and oil and gas mineral interests	\$ 2,085,787	\$ 1,732,865	\$ 1,732,865
Limited partnership investment fund	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>
Total Other Investments	<u>\$ 2,785,787</u>	<u>\$ 2,432,865</u>	<u>\$ 2,432,865</u>

The following schedules summarize the investment returns on all investments, all of which are unrestricted, for the year ended December 31, 2003:

Dividends	\$ 387,361
Interest	960,823
Less: Investment advisory fees	<u>(246,914)</u>
Net Investment Income	<u>\$ 1,101,270</u>
Net realized losses on marketable securities	\$ (1,417,104)
Net unrealized gain on limited partnership	99,658
Net unrealized gains on marketable securities	<u>7,213,956</u>
Net Realized and Unrealized Losses on Investments	<u>\$ 5,896,510</u>
Mineral income	\$ 756,744
Real estate income	74,600
Less: Mineral expense	(13,555)
Less: Real estate expense	<u>(14,077)</u>
Net Mineral and Real Estate Income	<u>\$ 803,712</u>

**ALL CHURCH HOME FOR CHILDREN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following as of December 31, 2003:

Land	\$	716,959
Buildings and improvements		2,048,400
Construction in progress		25,857
Furniture, fixtures and equipment		523,341
Automobiles		<u>278,908</u>
Total Property and Equipment		3,593,465
Less: Accumulated Depreciation		<u>(2,121,244)</u>
Net Property and Equipment	\$	<u><u>1,472,221</u></u>

**NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily and permanently restricted net assets are available for the following purposes as of December 31, 2003:

Restricted Purpose		Amount
Contributions restricted for future building expansion	\$	399,978
Providing care to children		<u>132,947</u>
Totals	\$	<u><u>532,925</u></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 \$28,425 during the year ended December 31, 2003.

**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, 2003 the Home has invested \$700,000 in this fund of funds limited partnership.