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**CHILD FOUNDATION**  
**FINANCIAL STATEMENTS**  
**Year Ended May 31, 2009**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Child Foundation  
Portland, Oregon

We have audited the accompanying statement of financial position of Child Foundation (a nonprofit corporation) as of May 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 financial statements of Child Foundation as of May 31, 2008 and in our report dated December 15, 2008, we expressed an unqualified opinion on those financial 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 Child Foundation as of May 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Susan M. Haase, CPA*

Susan M. Haase, CPA

November 4, 2009

**CHILD FOUNDATION**

**STATEMENT OF FINANCIAL POSITION**

**Year Ended May 31, 2009**

(With Comparative Totals for the Year Ended May 31, 2008)

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	274,437	257,542
Investments	0	0
Property and equipment, net	7,979	14,181
Prepaid expenses	74,802	9,599
Security deposits	1,611	671
<b>Total assets</b>	<b><u>358,829</u></b>	<b><u>281,993</u></b>

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued expenses	7,446	4,210
Payroll tax liabilities	5,571	5,210
<b>Total liabilities</b>	<b><u>13,017</u></b>	<b><u>9,420</u></b>
<b>Net assets</b>		
Unrestricted	5,590	139,322
Temporarily restricted	340,222	133,251
<b>Total net assets</b>	<b><u>345,812</u></b>	<b><u>272,573</u></b>
<b>Total liabilities and net assets</b>	<b><u>358,829</u></b>	<b><u>281,993</u></b>

See notes to financial statements

**CHILD FOUNDATION**

**STATEMENT OF ACTIVITIES**

**Year Ended May 31, 2009**

(With Comparative Totals for the Year Ended May 31, 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2009</u>	<u>2008</u>
<b>Revenues, gains and other support</b>				
Public support				
Contributions	116,148	1,657,641	1,773,789	1,612,030
Interest income	1,743	0	1,743	0
Total Income	117,891	1,657,641	1,775,532	1,612,030
Net assets released from restrictions				
Satisfaction of program restrictions	1,450,670	(1,450,670)	0	0
<b>Total Revenues, gains and other supports</b>	<b>1,568,561</b>	<b>206,971</b>	<b>1,775,532</b>	<b>1,612,030</b>
 <b>Expenses</b>				
Program services	1,450,670	0	1,450,670	1,380,401
Supporting services				
Management and general	162,209	0	162,209	72,422
Development	89,414	0	89,414	63,598
<b>Total expenses</b>	<b>1,702,293</b>	<b>0</b>	<b>1,702,293</b>	<b>1,516,421</b>
 <b>Change in net assets</b>	<b>(133,732)</b>	<b>206,971</b>	<b>73,239</b>	<b>95,609</b>
Beginning net assets	139,322	133,251	272,573	176,964
<b>Net assets, end of year</b>	<b>5,590</b>	<b>340,222</b>	<b>345,812</b>	<b>272,573</b>

See notes to financial statements

**CHILD FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended May 31, 2009**

(With Comparative Totals for the Year Ended May 31, 2008)

	<b>PROGRAM SERVICES</b>	<b>SUPPORTING SERVICES</b>		<b>Total</b>	
		<b>Management and General</b>	<b>Development</b>	<b>2009</b>	<b>2008</b>
Salaries and wages	\$ 143,201	\$ 29,929	\$ 24,304	\$ 197,434	\$ 207,503
Projects	1,139,359	0	0	1,139,359	1,089,958
Scholarships	0	0	500	500	5,500
Grants	0	0	0	0	11,000
Accounting	0	15,240	0	15,240	0
Advertising	2,015	50	6,756	8,821	916
Dues & Subscriptions	0	294	0	294	0
Employee Benefits	5,208	2,315	3,322	10,845	0
Fund-raising	119	0	24,074	24,193	16,212
Insurance	955	4,186	142	5,283	3,051
Legal	68,316	36,786	0	105,102	10,425
Licenses	0	5,731	0	5,731	1,171
Printing	10,057	2,787	7,195	20,039	21,574
Occupancy	7,656	13,030	2,397	23,083	8,536
Office supplies	2,935	8,228	1,001	12,164	7,874
Parking	340	599	330	1,269	0
Payroll taxes	11,245	2,850	1,999	16,094	16,516
Postage	13,820	2,433	9,636	25,889	17,611
Professional fees	12,895	25,380	12	38,287	63,133
Programming/Web Des	8,984	0	0	8,984	0
Telephone	1,878	4,591	4,721	11,190	5,659
Travel	0	1,346	2,401	3,747	4,102
Bank and merchant fee	17,181	2,601	0	19,782	15,083
Depreciation	4,458	3,833	624	8,915	9,860
Miscellaneous	48	0	0	48	737
	<b><u>1,450,670</u></b>	<b><u>162,209</u></b>	<b><u>89,414</u></b>	<b><u>1,702,293</u></b>	<b><u>1,516,421</u></b>

See notes to financial statements

**CHILD FOUNDATION**

**STATEMENT OF CASH FLOWS**

**Year Ended May 31, 2009**

(With Comparative Totals for the Year Ended May 31, 2008)

	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Change in net assets	73,239	95,609
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Receivables	0	0
Prepaid expenses	(65,203)	180
Deposits	(940)	(39)
Accounts payable and accrued expenses	3,237	(14,620)
Accrued payroll taxes	361	691
<b>Net cash provided by operating activities</b>	<b>10,694</b>	<b>91,682</b>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(2,714)	(9,036)
Depreciation and amortization	8,915	9,860
Purchase of investing activities	0	24,789
<b>Net cash used in investing activities</b>	<b>6,201</b>	<b>15,753</b>
<b>Net change in cash</b>	<b>16,895</b>	<b>107,435</b>
Cash, beginning of year	257,542	150,107
<b>Cash, end of year</b>	<b>274,437</b>	<b>257,542</b>

See notes to financial statements

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2009**

**NOTE A - DESCRIPTION OF ORGANIZATION**

Child Foundation, an Oregon nonprofit corporation formed in 1994 (the "Organization"), has the simple objective of helping children around the world stay in school. This is achieved by providing food, shelter, clothing, educational needs, medical help, and other services to talented, needy children. The children are typically located in Afghanistan, Indonesia, Iran and the United States. The Organization has no political, religious, ethnic or racial affiliations.

- **Education Fund.** This fund is allocated to all of our sponsored countries as needed, excluding Iran. The fund is used to provide education and training to financially disadvantaged and gifted children. Emergency medical and housing needs are also items covered by this fund. Loss of housing due to high rent or living in damaged buildings is a sad reality for many of the families. At times families have been moved into streets or nearby temporary facilities. At all these times, the Foundation relies on this Fund to bring a solution for the children under coverage.
- **Medical Relief Fund.** Medical relief comes in several different forms which may include: physician treatment, surgical operations, medicine and many more. Due to our large number of cancer patients and their expensive medical needs, a large portion of this Fund usually goes to cancer patients. The Fund can be split up into numerous categories because it provides medical relief where it is needed.
- **Emergency Fund.** The Emergency Fund allows the Child Foundation to provide coverage for children in a waiting period. Many times families are introduced to the Child Foundation at the most helpless period of their lives. Having to wait until a sponsor for a child is located can lead the family to take other alternatives such as stopping their children from attending school. For this reason, once a child's application has been accepted by the Child Foundation office, financial aid is provided to help the family and child to sustain while a particular sponsor is assigned. Some older children who are most vulnerable have had to wait for six months. Child Foundation's Emergency Fund covers their basic living expenses during these critical months. This service is only provided in the countries allowed by United States Law and presently not available to Iranians. Emergency medical and housing needs are also items that are covered by this Fund. Loss of housing due to high rent or living in damaged buildings is a sad reality for many of the families. At times families have been moved into streets or nearby temporary facilities. At all these times, the Foundation relies on this Fund to bring a solution for the children under coverage.



**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2009**

**NOTE A - DESCRIPTION OF ORGANIZATION (CONTINUED)**

- **Homeless Children.** In the past our Homeless Fund has given children hope for a brighter future. Although we cannot provide shelter, we assist children by providing them with life's necessities to lessen the financial burden.
- **Orphan Children.** There are over 143 million orphans in the world today. It is a tragedy when children cannot have the warmth and loving care that mothers and fathers provide. Through the Child Foundation, these children are given hope, and some are even sponsors who will care for them just like a mother or father.

**NOTE B -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

For financial reporting purposes, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Property and Equipment**

Property and equipment is recorded at cost. Donated equipment is recorded at fair market value at the date received. Depreciation is computed on the straight-line method over the following estimated useful lives:

Equipment	3 to 5 years
Furniture	5 to 7 years

Maintenance and repairs are expensed when incurred. Betterments and renewals are capitalized.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2009**

**NOTE B -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Concentration of Credit Risk**

The Organization occasionally maintains deposits in excess of federally insured limits.

Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

The Organization holds funds in a foreign bank account that is not federally insured. Because of the necessity of maintaining this account, the Organization uses a reputable bank and monitors all transactions.

**Income Taxes**

The Organization operates as a nonprofit corporation and has received tax-exempt status under Code Section 501(c) (3) of the Internal Revenue Code.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized in the Statement of Activities. Certain costs, including salaries, occupancy, professional fees and depreciation, have been allocated among the programs and supporting services benefitted.

**Prior Year Summarized Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended May 31, 2008, from which the summarized information was derived.

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2009**

**NOTE C - FIXED ASSETS**

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Office equipment	\$ 30,362	\$ 27,648
Furniture	<u>9,210</u>	<u>9,210</u>
	<b>39,572</b>	<b>36,858</b>
Less accumulated depreciation	<u>(31,593)</u>	<u>(22,677)</u>
	<b><u>\$ 7,979</u></b>	<b><u>\$ 14,181</u></b>

**NOTE D - OPERATING LEASES**

The Organization has an operating lease for its Portland business office that expires in April, 2011. Rent expense under the lease totaled \$23,084 and \$8,536 for the years ended May 31, 2009 and 2008, respectively.

Future minimum rental commitments as of May 31, 2009 are as follows:

<u>Year Ending May 31,</u>		
2010	\$	21,989
2011		<u>21,165</u>
	<b>\$</b>	<b><u>43,154</u></b>

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2009**

**NOTE E - RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets at May 31, 2009 were restricted for the following programs:

	<u><b>2009</b></u>	<u><b>2008</b></u>
Sponsorships	\$ 400,776	\$ 41,465
Cancer program	1,226	40,753
Adoption	2,329	33,001
Deaf or blind children	409	5,000
Esfahan children	0	3,692
Hunger relief	817	1,694
Emergency	409	1,850
Indonesian children	82	3,692
BAM earthquake	0	2,104
Education	82	0
Teens without sponsors	1,593	0
Abused children	817	0
	<u>\$ 408,538</u>	<u>\$ 133,251</u>

Although the Organization occasionally does not maintain cash and other receivables equal to the restricted net assets, it is able to meet its donor restrictions through continued support from fund-raising activities.

**NOTE F –PROJECTS**

Projects reported on the statement of functional expenses consist of the following:

	<u><b>2009</b></u>	<u><b>2008</b></u>
Children Sponsorship Program	\$1,055,130	\$1,022,196
Indonesian Children	4,160	16,308
Esfahan Children	3,692	16,308
Hunger Relief	14,151	7,483
Emergency	8,027	8,173
Medical assistance	13,309	10,194
Adoptions	40,890	0
BAM Earthquake	0	9,296
	<u>\$1,139,359</u>	<u>\$1,089,958</u>

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2009**

**NOTE G - GRANTS**

The Organization approved and disbursed the following grants to other charities during the years ended May 31, 2009 and 2008, respectively:

	<u><b>2009</b></u>	<u><b>2008</b></u>
Indonesian Children	0	\$10,000
Miscellaneous	0	1,000
	<u>0</u>	<u>\$11,000</u>

**NOTE H - AFFILIATE PROGRAMS**

International affiliates - grassroots organizations of local people coming together to address local needs, are independent, not-for-profit groups that are approved by regional, area, or national offices and operate under a covenant agreement with Child Foundation. All affiliates are encouraged to be self-supporting in their fund-raising efforts; however, Child Foundation also solicits contributions, both cash and in-kind, on behalf of its affiliates. Some affiliates in developing countries, where severely limited resources constrain local fund-raising, receive the majority of their funding from Child Foundation.

**NOTE I - CONCENTRATION OF RISK IN OPERATIONS**

The Organization sponsorship program provides humanitarian assistance for children in Indonesia and Iran. Changes in the political environment in those countries could disrupt those program activities.