

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, 2010, 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, 2009 and in our report dated August 31, 2009, 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, 2010, 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

August 31, 2010

CHILD FOUNDATION
FINANCIAL STATEMENTS
Year Ended May 31, 2010

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CHILD FOUNDATION

STATEMENT OF FINANCIAL POSITION

Year Ended May 31, 2010

(With Comparative Totals for the Year Ended May 31, 2009)

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$450,377	\$274,437
Investments	0	0
Property and equipment, net	2,774	7,979
Prepaid expenses	73,542	74,802
Security deposits	1,611	1,611
Total assets	<u>528,304</u>	<u>358,829</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	13,885	7,446
Payroll tax liabilities	5,213	5,571
Total liabilities	<u>19,098</u>	<u>13,017</u>
Net assets		
Unrestricted	(220,620)	(62,726)
Temporarily restricted	729,826	408,538
Total net assets	<u>509,206</u>	<u>345,812</u>
Total liabilities and net assets	<u>\$528,304</u>	<u>\$358,829</u>

See notes to financial statements

CHILD FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended May 31, 2010

(With Comparative Totals for the Year Ended May 31, 2009)

			Total	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010</u>	<u>2009</u>
Revenues, gains and other support				
Public support				
Contributions	95,917	1,923,417	2,019,334	1,773,789
Interest income	1,124		1,124	1,743
Total Income	97,041	1,923,417	2,020,458	1,775,532
Net assets released from restrictions				
Satisfaction of program restrictions	1,602,129	(1,602,129)	-	0
Total Revenues, gains and other supports	1,699,170	321,288	2,020,458	1,775,532
 Expenses				
Program services	1,602,129		1,602,129	1,382,354
Supporting services				
Management and general	176,828		176,828	230,525
Fundraising and development	78,107		78,107	89,414
Total expenses	1,857,064	-	1,857,064	1,702,293
 Change in net assets	(157,894)	321,288	163,394	73,239
Beginning net assets	(62,726)	408,538	345,812	272,573
Net assets, end of year	(220,620)	729,826	509,206	272,787

See notes to financial statements

CHILD FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended May 31, 2010

(With Comparative Totals for the Year Ended May 31, 2009)

	PROGRAM SERVICES	SUPPORTING SERVICES		Total	
		Management and General	Fundraising and Dev.	2010	2009
Salaries and wages	\$ 194,479	\$ 40,976	\$ 33,480	268,935	\$ 197,434
Projects	1,267,727			1,267,727	1,139,359
Scholarships	500			500	500
Grants	2,000			2,000	0
Accounting		8,000		8,000	15,240
Advertising	4,321	1,662	665	6,648	8,821
Dues & Subscriptions		125		125	294
Employee Benefits	26,107	4,010	4,016	34,133	10,845
Fund-raising			7,316	7,316	24,193
Insurance	2,768	1,064	426	4,258	5,283
Legal	-	71,535	-	71,535	105,102
Licenses		1,437	2,180	3,617	5,731
Printing	10,349	45	6,073	16,467	20,039
Occupancy	5,029	11,675	13,076	29,780	23,083
Office supplies	2,843	2,721	599	6,163	12,164
Parking		300		300	1,269
Payroll taxes	15,120	4,661	2,558	22,339	16,094
Postage	14,368	9,339	718	24,425	25,889
Professional fees	22,879	8,399	3,360	34,638	38,287
Programming/Web Design	893			893	8,984
Telephone	3,110	4,992	3,119	11,221	11,190
Travel	5,039			5,039	3,747
Bank and merchant fees	23,296	2,504		25,800	19,782
Depreciation	1,301	3,383	521	5,205	8,915
Miscellaneous				-	48
	<u>1,602,129</u>	<u>176,828</u>	<u>78,107</u>	<u>\$ 1,857,064</u>	<u>1,702,293</u>

See notes to financial statements

CHILD FOUNDATION
STATEMENT OF CASH FLOWS

Year Ended May 31, 2010
(With Comparative Totals for the Year Ended May 31, 2009)

	2010	2009
Cash flows from operating activities		
Change in net assets	163,394	73,239
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	1,260	(65,203)
Deposits	0	(940)
Accounts payable and accrued expenses	6,439	3,237
Accrued payroll taxes	(358)	361
Net cash provided by operating activities	170,735	10,694
 Cash flows from investing activities:		
Purchase of fixed assets	0	(2,714)
Depreciation and amortization	5,205	8,915
Purchase of investing activities		
Net cash used in investing activities	5,205	6,201
 Net change in cash	175,940	16,895
 Cash, beginning of year	274,437	257,542
 Cash, end of year	450,377	274,437

See notes to financial statements

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2010

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, 2010

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, 2010

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, 2009, from which the summarized information was derived.

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2010

NOTE C - FIXED ASSETS

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Office equipment	\$ 30,362	\$ 30,362
Furniture	<u>9,210</u>	<u>9,210</u>
	39,572	39,572
Less accumulated depreciation	<u>(36,798)</u>	<u>(31,593)</u>
	<u>\$ 2,774</u>	<u>\$ 7,979</u>

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 \$30,046 for the years ended May 31, 2010 and 2009, respectively.

Future minimum rental commitments as of May 31, 2010 are as follows:

<u>Year Ending May 31,</u>	
2010	\$ 21,989
<u>2011</u>	<u>14,659</u>
	<u>\$ 43,154</u>

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2010

NOTE E - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at May 31, 2010 were restricted for the following programs:

	<u>2010</u>	<u>2009</u>
Sponsorships	\$ 703,549	\$ 332,460
Cancer program	1,992	1,226
Adoption	13,595	2,329
Deaf or blind children	501	409
Medications Fund	-0-	817
Hunger relief	4,738	1,694
Emergency	563	409
Indonesian children	-0-	82
Education	-0-	82
Teens without sponsors	2,871	1,593
Abused children	2,017	817
	<u>729,826</u>	<u>\$ 341,918</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:

	2010	2009
Children Sponsorship Program	\$1,234,689	\$1,089,958
Indonesian Children	10,000	16,308
Esfahan Children	0	16,308
Hunger Relief	14,105	7,483
Emergency	3,199	8,173
Medical assistance	5,774	10,194
Adoptions	0	0
BAM Earthquake	0	9,296
	<u>1,267,767</u>	<u>\$1,157,720</u>

CHILD FOUNDATION
NOTES TO FINANCIAL 2010

NOTE G - GRANTS

The Organization approved and disbursed the following grants to other charities during the years ended May 31, 2010 and 2009, respectively:

	<u>2010</u>	<u>2009</u>
Indonesian Children		0
Miscellaneous	2,000	0
	<u>2,000</u>	<u>0</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.