

CHILD FOUNDATION
FINANCIAL STATEMENTS
Year Ended May 31, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Child Foundation
Portland, Oregon

We have audited the accompanying statement of financial position of the US operations of Child Foundation (a nonprofit corporation) as of May 31, 2013, 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, 2012 and in our report dated September 1, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit of the US operations of Child Foundation 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 US as of May 31, 2013, 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 15, 2013

CHILD FOUNDATION

STATEMENT OF FINANCIAL POSITION

Year Ended May 31, 2013

(With Comparative Totals for the Year Ended May 31, 2012)

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$520,548	\$116,957
Accounts Receivable	0	0
Property and equipment, net	30,701	27,077
Prepaid expenses	29,154	35,612
Security deposits	2,537	1,611
	<hr/>	<hr/>
Total assets	582,940	181,257
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LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	395,993	191,232
Payroll liabilities	3,932	7,421
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Total liabilities	399,925	198,653
Net assets		
Unrestricted	55,640	0
Temporarily restricted	127,375	(17,396)
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Total net assets	183,015	(17,396)
Total liabilities and net assets	\$582,940	\$181,257
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See notes to financial statements

CHILD FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended May 31, 2013

(With Comparative Totals for the Year Ended May 31, 2012)

	Unrestricted	Temporarily Restricted	Total	Total
			<u>2013</u>	<u>2012</u>
Revenues, gains and other support				
Public support				
Contributions, Fundraising, Misc	223,942	2,308,451	2,532,393	2,340,394
Interest income	472		472	502
Total Revenues	<u>\$ 224,414</u>	<u>\$ 2,308,451</u>	<u>\$ 2,532,865</u>	<u>\$ 2,340,896</u>
Net assets released from restrictions	2,422,386	(2,422,386)		
Satisfaction of program restrictions				
 Expenses				
Program services	1,960,498		1,960,498	1,953,709
Supporting services				
Management and general	280,235		280,235	654,242
Fundraising and development	91,722		91,722	153,597
Total expenses	<u>\$ 2,332,455</u>	<u>0</u>	<u>\$ 2,332,455</u>	<u>\$ 2,761,548</u>
 Change in net assets	314,345	(113,935)	200,410	(420,652)
Beginning net assets	(258,705)	241,310	(17,395)	403,256
 Net assets, end of year	<u>\$ 55,640</u>	<u>\$ 127,375</u>	<u>\$ 183,015</u>	<u>\$ (17,396)</u>

See notes to financial statements

CHILD FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended May 31, 2013

(With Comparative Totals for the Year Ended May 31, 2012)

	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL	TOTAL
		Management and General	Fundraising and Dev.	2013	2012
Salaries & wages	\$ 238,795	\$ 27,972	\$ 28,147	\$ 294,913	373,743
Program expenses	1,261,862	0	0	1,261,862	1,471,419
Scholarships	1,215	0	0	1,215	500
Contributions	425	500	0	925	250
National Disaster Relief	270,000	0	0	270,000	0
Fundraising	680	0	40,033	40,714	42,277
Payroll taxes	17,418	2,157	1,253	20,827	36,024
Advertising	(5,630)	50	1,625	(3,955)	8,572
Dues & subscriptions	0	425		425	175
Employee benefits	17,152	2,305	2,318	21,776	28,583
Insurance	1,150	3,682	93	4,925	4,432
Legal & professional fees	0	44,829	0	44,829	554,110
Legal fees (non-program)	26,243	38,098	0	64,341	0
Licenses	1,971	1,677	50	3,698	5,439
Accounting and audit	10,816	9,433	0	20,249	11,800
Communications	8,049	1,713	2,230	11,992	4,418
Compliance	9,074	53,579	0	62,653	38,833
Office supplies	5,605	(463)	493	5,635	7,997
Program supplies	262	0	0	262	0
Parking	0	0	0	0	0
Meeting	0	1,581	0	1,581	9,626
Furniture & equipment	221	351	0	572	0
Postage	7,087	300	2,704	10,092	18,204
Printing	9,376	110	2,042	11,528	5,427
Professional fees	4,020	54,531	2,632	61,183	16,839
Program supplies	337	521	75	934	0
Website maintenance	6,535	1,184	1,634	9,352	25,770
Marketing	1,918	147	(410)	1,656	27,304
Telephone	920	33	68	1,022	8,902
Travel	2,171	372	442	2,985	4,523
Bank & merchant fees	19,848	19,430	192	39,469	50,082
Depreciation	326	377	0	703	2,395
Rent	33,685	3,771	3,771	41,227	0
Utilities	2,041	21	51	2,113	0
Penalty	0	1,122	0	1,122	0
Traning	0	149	0	149	0
Repairs & maintenance	1,331	111	278	1,719	0
In-Kind services-Expense	5,597	10,166	2,000	17,763	3,904
	\$ 1,960,498	\$ 280,235	\$ 91,722	\$ 2,332,455	\$ 2,761,548

See notes to financial statements

CHILD FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended May 31, 2013

(With Comparative Totals for the Year Ended May 31, 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	\$200,410	(\$420,651)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Receivables	(820)	10,000
Prepaid expenses	7,279	37,067
Accounts payable and accrued expenses	208,694	144,021
Accrued payroll taxes	(7,421)	(5,061)
Net cash provided by operating activities	408,142	(234,624)
 Cash flows from investing activities:		
Purchase of fixed assets	(4,327)	23,097
Depreciation and amortization	703	(25,243)
Security deposits	(927)	
Net cash used in investing activities	(4,551)	(2,146)
 Cash flows from financing activities:		
Grants: Iran	0	(10,378)
Net cash used in financing activities	0	(10,378)
 Net change in cash	403,591	(247,148)
 Cash, beginning of year	116,957	364,105
 Cash, end of year	\$520,548	\$116,957

See notes to financial statements

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS

May 31, 2013

NOTE A - DESCRIPTION OF ORGANIZATION

Child Foundation, an Oregon nonprofit corporation formed in 1994 (the "Organization"), has no political, religious, ethnic or racial affiliations. The organization's only objective is to help children stay in school. This is achieved by providing food, shelter, clothing, educational supplies, and medical help to talented children in need. The children are typically located in Afghanistan, Indonesia, and Iran.

- **Education Fund.** This fund is allocated to sponsored children as needed, excluding Iran, where children are given bulk food and school supplies only. 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. The Organization relies on this Fund to provide solutions for children under sponsorship.
- **Medical Relief Fund.** Medical relief comes in several different forms which may include: physician treatment, surgical operations, medicine and many more. Due to the large number of cancer patients and their extensive medical needs, a large portion of this Fund usually goes to cancer patients.
- **Emergency Fund.** The Emergency Fund allows the Organization to assist children during 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 Organization, financial aid is provided to help the family and child until 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 is 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 to nearby temporary facilities. At all these times, the Organization relies on this Fund to provide solutions for the children.

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2013

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 Organization, these children are given hope,

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 received. 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 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, 2013

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 has affiliates in other countries, and these affiliates hold funds in foreign bank accounts that are not federally insured. Because of the necessity of maintaining these accounts, the Organization uses reputable banks and monitors all transactions. The affiliates are not included in this audit and have their own controls and reporting requirements to the Organization's Board.

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, 2012, from which the summarized information was derived.

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2013

NOTE C - FIXED ASSETS

Property and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
School Improvements-Afghanistan	\$ 24,264	\$ 24,264
Office equipment	20,471	16,143
Furniture	<u>1,200</u>	<u>1,200</u>
Total	\$ 45,935	\$ 41,607
Less Accumulated Depreciation	<u>(15,234)</u>	<u>(15,047)</u>
Net Assets	<u>\$ 30,701</u>	<u>\$ 26,560</u>

NOTE D - OPERATING LEASES

The Organization has a new operating lease for its relocated Portland business office that expires in July, 2016. Rent expense under the old lease totaled \$33,685 and \$24,398 for the years ended May 31, 2013 and 2012, respectively.

Future minimum rental commitments as of May 31, 2013 are as follows:

<u>Year Ending May 31,</u>	
2014	\$ 15,519
2015	\$ 14,796
2016	<u>\$ 15,239</u>
Total Obligation	\$ 45,554

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2013

NOTE E - RESTRICTIONS ON NET ASSETS

There were restrictions on net assets of \$129,156 at the end of the fiscal year, primarily due to timing of receipts late in the year. No new grants were received during the fiscal year.

NOTE F - PROGRAMS

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

	2013	2012
Iranian and Afghan Children	\$1,535,322	\$1,509,981
Indonesian Children	26,000	22,600
Allocated Dubai expense	29,402	
Allocated USA office expense	369,774	
Total	\$1,960,499	\$1,532,581

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2013

NOTE G - GRANTS

The organization did not make any grants in the fiscal year ending May 31, 2013

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. These affiliates are not included in the audit and have separate financial statements.

NOTE I - CONCENTRATION OF RISK IN OPERATIONS

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

NOTE J – CONTINGENT LIABILITIES

The organization successfully defended itself in litigation ending in fiscal year 2011-2012. While the penalties and legal expenses related to this litigation were quite large, all related liabilities have now been paid, and programs were not affected. There are no contingent liabilities at this time.