

CHILD FOUNDATION
FINANCIAL STATEMENTS
Year Ended May 31, 2014

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Year Ended May 31, 2014**

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Independent Auditors' Report

To the Board of Directors of Child Foundation
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Child Foundation (a nonprofit organization), which comprise the statement of financial position as of May 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The balance of cash held with the Commercial Bank of Dubai of \$38,067 as of May 31, 2014 could not be confirmed or verified through alternative procedures. We were unable to obtain sufficient appropriate audit evidence to verify the amount or confirm the existence of cash held in Commercial Bank of Dubai accounts due to the lack of confirmation and the fact the funds and online account access have been frozen. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Child Foundation as of May 31, 2014, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restrictions on Use

This report is intended solely for the information and use of the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Isler Northwest LLC

Isler Northwest LLC
Portland, Oregon
October 31, 2014

CHILD FOUNDATION
STATEMENT OF FINANCIAL POSITION
May 31, 2014

ASSETS

Cash and cash equivalents	\$ 307,882
Prepaid expenses	22,806
Property and equipment, net	10,962
Security deposits	<u>2,400</u>
 Total assets	 <u><u>\$ 344,050</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 19,012
Payroll liabilities	6,721
Compensated absences payable	8,503
Capital lease obligation	<u>7,842</u>
 Total liabilities	 <u>42,078</u>
 Net assets	
Unrestricted	216,538
Temporarily restricted	<u>85,434</u>
 Total net assets	 <u>301,972</u>
 Total liabilities and net assets	 <u><u>\$ 344,050</u></u>

See notes to financial statements

CHILD FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended May 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support			
Public support			
Contributions, Fundraising, Misc	\$ 288,428	\$ 1,976,284	\$ 2,264,712
Donated services	4,843		4,843
Interest income	439		439
Total Revenues	<u>293,710</u>	<u>1,976,284</u>	<u>2,269,994</u>
Net assets released from restrictions			
Satisfaction of program restrictions	<u>2,018,225</u>	<u>(2,018,225)</u>	<u>-</u>
Total revenues, gains and other support	<u>2,311,935</u>	<u>(41,941)</u>	<u>2,269,994</u>
Expenses			
Program services	1,684,220		1,684,220
Supporting services			
Management and general	222,073		222,073
Fundraising and development	222,108		222,108
Total expenses	<u>2,128,401</u>	<u>-</u>	<u>2,128,401</u>
Change in net assets	<u>183,534</u>	<u>(41,941)</u>	<u>141,593</u>
Net assets, beginning of year	55,640	127,375	183,015
Prior period adjustment	<u>(22,636)</u>	<u>-</u>	<u>(22,636)</u>
Net assets, beginning of year as restated	<u>33,004</u>	<u>127,375</u>	<u>160,379</u>
Net assets, end of year	<u>\$ 216,538</u>	<u>\$ 85,434</u>	<u>\$ 301,972</u>

See notes to financial statements

CHILD FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended May 31, 2014

	Program Services	Supporting Services		Total
		Management and General	Fundraising and Dev.	
Aid to children	\$ 1,360,312	\$ -	\$ -	\$ 1,360,312
Salaries & wages	203,545	53,251	92,902	349,698
Payroll taxes	22,499	5,907	7,753	36,159
Employee benefits	28,881	7,556	13,182	49,619
Advertising	-	50	1,309	1,359
Audit	-	10,600	-	10,600
Bank & merchant fees	2,165	2,705	45,540	50,410
Communications	5,094	1,301	3,113	9,508
Compliance	4,100	6,126	190	10,416
Depreciation	2,043	535	933	3,511
Dues & subscriptions	-	1,005	-	1,005
Furniture & equipment	1,046	304	531	1,881
Insurance	1,047	3,638	478	5,163
Interest	-	588	-	588
IT supplies & maintenance	1,753	704	809	3,266
Legal fees	-	26,282	-	26,282
Licenses & permits	403	2,948	1,191	4,542
Loss on abandonment of equipment	4,092	-	-	4,092
Miscellaneous	-	1,970	1,262	3,232
Office supplies	2,189	2,148	1,836	6,173
Outreach event expenses	412	57	7,196	7,665
Postage & delivery	394	2,890	5,190	8,474
Printing	7,362	9,121	18,523	35,006
Professional fees	18,088	76,622	7,070	101,780
Rent & utilities	10,890	2,869	12,412	26,171
Repairs & maintenance	1,034	365	472	1,871
Staff training	-	55	110	165
Travel	2,621	1,883	106	4,610
In-kind services	4,250	593	-	4,843
	<u>\$ 1,684,220</u>	<u>\$ 222,073</u>	<u>\$ 222,108</u>	<u>\$ 2,128,401</u>

See notes to financial statements

CHILD FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended May 31, 2014

Cash flows from operating activities:	
Change in net assets	\$ 141,593
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	3,511
Loss on abandonment of equipment	4,092
Changes in assets and liabilities:	
Prepaid expenses	6,348
Security deposits	137
Accounts payable and accrued expenses	(376,981)
Payroll liabilities	2,789
Compensated absences payable	8,503
Net cash provided (used) by operating activities	<u>(210,008)</u>
 Cash flows from investing activities:	
Purchase of property and equipment	(1,200)
 Cash flows from financing activities:	
Principal payments under capital lease obligation	<u>(1,458)</u>
 Net change in cash and cash equivalents	(212,666)
 Cash and cash equivalents, beginning of year	<u>520,548</u>
 Cash and cash equivalents, end of year	<u><u>\$ 307,882</u></u>
 Supplemental disclosure of cash flow information:	
Interest paid	\$ 588
 Schedule of noncash investing and financing activities:	
Equipment purchases financed with capital lease obligations	\$ 9,300

See notes to financial statements

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2014

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 supports social service work in three countries primarily.

Iran – The Organization matches supporters from the U.S.A. and other countries with disadvantaged children who need assistance in order to stay in school. The children and their families are identified by a social service agency in Iran, Refah Koudak, and are then referred to the Organization. The approximate number of children receiving support is 2,750. Because of the sanctions against Iran, most support is provided in the form of bulk food, which is distributed to the children's families. In the year ended May 31, 2014, the Organization received a license from OFAC (US Office of Foreign Asset Control) to send \$500,000 in cash to Iran; as of year-end, \$410,000 had been sent.

Afghanistan – The Organization matches supporters in the U.S.A. and other countries with disadvantaged children in Afghanistan who need assistance in order to stay in school. The Organization also supports the programs of Future for Afghan Children, which runs a computer school and a theater camp, as well as a cultural enrichment program for impoverished children. The approximate number of children receiving assistance is 100.

Indonesia – The Organization provides support to needy children, enabling them to continue their education. The approximate number of children receiving assistance is 25.

Medical and Natural Disaster Relief – The Organization assists with medical expenses for surgeries and other medical treatment for individual children who are referred by its partner social service agencies. When earthquakes, mudslides and other natural disasters occur, the Organization organizes support and sends relief to the affected areas through its partner agencies, often focusing on rebuilding schools.

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.

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost with a capitalization threshold of \$1,000. 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:

Leasehold improvements	3 years
Computer Equipment	4 to 5 years
Office Equipment	7 to 10 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 affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

The Organization places its cash with high credit quality financial institutions but retains a certain amount of exposure as cash is held with multiple domestic and foreign financial institutions. The domestic bank accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The foreign bank accounts are not federally insured. Because of the necessity of maintaining these foreign accounts, the Organization uses reputable banks and monitors all transactions. The uninsured balance was \$130,908 at May 31, 2014.

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. The Organization is no longer subject to tax examination for years prior to 2007.

Donated Services

The Organization received pro bono legal work valued at \$4,843 during the year ended May 31, 2014. The value of donated services has been recorded.

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.

**CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2014**

NOTE C - FIXED ASSETS

Property and equipment consist of the following at May 31, 2014:

Office equipment	\$10,750
Computer equipment	7,243
Leasehold improvements	<u>1,200</u>
Total	19,193
Less accumulated depreciation	<u>(8,231)</u>
Property and equipment, net	<u>\$10,962</u>

NOTE D - CAPITAL LEASE

The Organization leases a copier under a capital lease agreement with US Bank Equipment Finance. The lease term is 60 months ending July 2018. The copier was purchased for \$9,300 and is included in the property and equipment of the Organization. Monthly lease payments are approximately \$186. Amortization is computed by the straight-line method and has been included in depreciation. Accumulated amortization related to the copier totaled \$2,657 as of May 31, 2014. The Organization has the option to purchase the copier at the end of the lease term for \$558.

Future minimum lease payments, including principal and interest, as of May 31, 2014 are as follows:

<u>Year Ending May 31,</u>	
2015	\$2,232
2016	2,232
2017	2,232
2018	2,232
2019	<u>186</u>
Total minimum lease payments	9,114
Less amount representing interest	<u>(1,272)</u>
Present value of minimum lease payments	<u>\$7,842</u>

NOTE E - OPERATING LEASE

The Organization has an operating lease for its relocated Portland business office that commenced July 1, 2013 and expires July 1, 2016. The lease agreement contains a two-year renewal option. Rent expense under the operating lease totaled \$13,200 for the year ended May 31, 2014.

Future minimum rental commitments as of May 31, 2014 are as follows:

<u>Year Ending May 31,</u>	
2015	\$14,796
2016	15,239
2017	<u>1,273</u>
Total obligation	<u>\$31,308</u>

NOTE F - RESTRICTIONS ON NET ASSETS

There were restrictions on net assets of \$85,434 at the end of the fiscal year primarily due to the timing of receipts late in the year. No new grants were received during the fiscal year.

CHILD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2014

NOTE G - PROGRAMS

Program expenses reported on the statement of functional expenses consist of the following for the year ended May 31, 2014:

Iranian and Afghan children	\$1,320,775
Indonesian children	22,000
Afghan agency support	22,316
Allocated USA office expense	<u>319,129</u>
Total	<u>\$1,684,220</u>

NOTE H - GRANTS

The Organization did not make any grants in the fiscal year ending May 31, 2014.

NOTE I - 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 the Organization. All affiliates are encouraged to be self-supporting in their fund-raising efforts; however, the Organization 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 the Organization. These affiliates are not included in the audit and have separate financial statements.

NOTE J - 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 K - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to remove property and equipment not owned by the Organization. The adjustment decreased property and equipment and beginning unrestricted net assets by \$22,636.

NOTE L - SUBSEQUENT EVENTS

Organization management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 31, 2014, which is the date the financial statements were available to be issued.