



**CHILD FOUNDATION**  
**FINANCIAL STATEMENTS**  
**Year Ended May 31, 2017**

**with**  
**Independent Auditors' Report**

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# CHILD FOUNDATION

## Table of Contents

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	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

## **Independent Auditors' Report**

The Board of Directors  
Child Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Child Foundation, which comprise the statement of financial position as of May 31, 2017, 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 audit opinion.

## **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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Child Foundation, Inc. 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Huffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon  
October 12, 2017

**CHILD FOUNDATION**  
**Statement of Financial Position**

<b>May 31, 2017</b> <i>(With Comparative Amounts for 2016)</i>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 449,614	\$ 1,075,047
Prepaid expenses and other assets	64,911	55,541
Property and equipment - net <i>(Notes 3 and 4)</i>	350,421	25,029
Security deposits	440	2,400
<b>Total assets</b>	<b><u>\$ 865,386</u></b>	<b><u>\$ 1,158,017</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 45,344	\$ 3,906
Accrued payroll and related costs	23,515	17,323
Accrued direct program aid	110,944	536,672
Capital lease obligation <i>(Note 4)</i>	2,320	4,300
<b>Total liabilities</b>	<b>182,123</b>	<b>562,201</b>
Commitment <i>(Note 9)</i>		
<b>Net assets:</b>		
Unrestricted	424,395	245,237
Temporarily restricted <i>(Note 5)</i>	258,868	350,579
<b>Total net assets</b>	<b><u>683,263</u></b>	<b><u>595,816</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 865,386</u></b>	<b><u>\$ 1,158,017</u></b>

*The accompanying notes are an integral part of the financial statements.*

**CHILD FOUNDATION**

**Statement of Activities**

**Year Ended May 31, 2017 (With Comparative Totals for 2016)**

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
<b>Support and revenue:</b>				
Contributions	\$ 384,793	\$ 2,833,449	\$ 3,218,242	\$ 2,967,022
Donated materials and services	2,072	-	2,072	2,940
Other income	8,976	-	8,976	37,027
Interest income	288	-	288	285
Special event - net of direct expenses of \$36,869 for 2017 and \$13,594 for 2016	(20,182)	-	(20,182)	(2,465)
Loss on disposal of property and equipment	-	-	-	(251)
Net assets released from restriction (Note 5)	2,925,160	(2,925,160)	-	-
<b>Net support and revenue</b>	<b>3,301,107</b>	<b>(91,711)</b>	<b>3,209,396</b>	<b>3,004,558</b>
<b>Expenses:</b>				
Program services (Note 6)	2,925,160	-	2,925,160	2,512,862
General and administrative	97,940	-	97,940	90,816
Fundraising	98,849	-	98,849	76,911
<b>Total expenses</b>	<b>3,121,949</b>	<b>-</b>	<b>3,121,949</b>	<b>2,680,589</b>
<b>Increase (decrease) in net assets</b>	<b>179,158</b>	<b>(91,711)</b>	<b>87,447</b>	<b>323,969</b>
Net assets, beginning of year	245,237	350,579	595,816	271,847
<b>Net assets, end of year</b>	<b>\$ 424,395</b>	<b>\$ 258,868</b>	<b>\$ 683,263</b>	<b>\$ 595,816</b>

The accompanying notes are an integral part of the financial statements.

**CHILD FOUNDATION**

**Statement of Functional Expenses**

**Year Ended May 31, 2017 (With Comparative Totals for 2016)**

	Program Services	General and Administrative		Total	
		Fundraising		2017	2016
Payroll and related costs	\$ 416,042	\$ 16,556	\$ 29,160	\$ 461,758	\$ 439,305
Direct program aid	2,315,002	-	-	2,315,002	1,959,625
Advertising	-	130	1,595	1,725	724
Audit and accounting	-	18,000	-	18,000	10,000
Bank fees	63,426	3,281	104	66,811	60,368
Compliance	60	285	2,907	3,252	7,817
Depreciation and amortization	5,807	163	335	6,305	4,137
Small equipment	5,322	100	206	5,628	1,461
Insurance	1,698	3,137	74	4,909	4,312
Interest	-	271	-	271	442
Executive meetings	-	3,543	-	3,543	4,549
Internet and telephone	9,367	221	455	10,043	10,550
Information technology	10,059	313	2,057	12,429	8,242
Legal	5,890	4,205	-	10,095	10,112
Licenses and fees	118	1,583	3,177	4,878	2,839
Miscellaneous	2,401	1,319	3,602	7,322	852
Outreach events	452	-	3,265	3,717	3,879
Postage	11,074	1,105	9,456	21,635	15,199
Printing	23,251	6,625	23,434	53,310	33,062
Professional fees	2,126	35,409	9,382	46,917	52,012
Web design	1,443	335	72	1,850	1,000
Rent	38,372	420	863	39,655	37,763
Repairs and maintenance	3,649	102	211	3,962	2,115
Supplies	2,740	367	7,060	10,167	3,954
Taxes	2,434	147	140	2,721	-
Travel	2,709	275	1,195	4,179	5,766
Utilities	1,718	48	99	1,865	504
<b>Total expenses</b>	<b>\$ 2,925,160</b>	<b>\$ 97,940</b>	<b>\$ 98,849</b>	<b>\$ 3,121,949</b>	<b>\$ 2,680,589</b>

*The accompanying notes are an integral part of the financial statements.*

**CHILD FOUNDATION**

**Statement of Cash Flows**

<b>Year Ended May 31, 2017 (With Comparative Totals for 2016)</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 87,447	\$ 323,969
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	6,305	4,137
Loss on disposal of property and equipment	-	251
Increase in:		
Prepaid expenses and other assets	(7,410)	(32,040)
Increase (decrease) in:		
Accounts payable		(20,650)
Accrued payroll and related costs	6,192	5,805
Accrued direct program aid	(425,728)	536,672
<b>Net cash provided (used) by operating activities</b>	<b>(333,194)</b>	<b>818,144</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(331,697)	(21,966)
<b>Net cash used by investing activities</b>	<b>(331,697)</b>	<b>(21,966)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on capital lease obligation	(1,980)	(1,838)
<b>Net cash used by financing activities</b>	<b>(1,980)</b>	<b>(1,838)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(666,871)</b>	<b>794,340</b>
Cash and cash equivalents, beginning of year	1,075,047	280,707
<b>Cash and cash equivalents, end of year</b>	<b>\$ 408,176</b>	<b>\$ 1,075,047</b>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 271	\$ 442

*The accompanying notes are an integral part of the financial statements.*



## CHILD FOUNDATION

### Notes to Financial Statements

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#### 1. Nature of Organization

Child Foundation (the Organization), an Oregon nonprofit corporation formed in 1994, has no political, religious, ethnic, or racial affiliations. The Organization supports social service work primarily in four countries as follows:

**Iran** - The Organization matches supporters from the United States of America and other countries with disadvantaged children who need assistance in order to stay in school. The children and their families are identified by a non-governmental organization in Iran, Refah Koodak, and are then referred to the Organization. As of May 31, 2017, there were approximately 5,900 active sponsorships. During the year ended May 31, 2017, the Organization received a renewable two-year special license to send \$3,000,000 in cash per year to Iran. Amounts transmitted during the years ended May 31, 2017 and 2016, were \$2,564,967 and \$1,298,303, respectively. In addition, \$102,140 was sent in June 2017.

**Afghanistan** - The Organization matches supporters in the United States of America and other countries with disadvantaged children in Afghanistan who need assistance in order to stay in school. As of May 31, 2017, there were approximately 275 active sponsorships.

**Indonesia** - The Organization provides support to needy children, enabling them to continue their education. The Organization supported approximately 35 children during the year ended May 31, 2017.

**Nepal** - The Organization has recently begun working with Empower Nepali Girls Foundation, a United States 501(c)(3) organization, in Nepal, matching supporters with children there. During the year ended May 31, 2017, the Organization provided support for 20 girls in Nepal, regardless of whether sponsors have been identified.

The Organization also 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.

# CHILD FOUNDATION

## Notes to Financial Statements - Continued

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### 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statements to the reader.

**Basis of Accounting** - The Organization's financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Basis of Presentation** - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations. Unrestricted net assets include those amounts available for use at the Board of Director's discretion in the Organization's operations and those resources invested in equipment.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP 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 year. Actual results could differ from these estimates. Among other things, estimates are used in the financial statements to calculate depreciation and amortization expense (based on the estimated useful lives of the underlying assets), and to allocate certain expenses by function.

**Cash and Cash Equivalents** - For purposes of the financial statements, the Organization considers all liquid investments having initial maturities of three months or less to be cash equivalents.

**Property and Equipment** - Land, buildings, and equipment purchased by the Organization are recorded at cost, with a capitalization threshold of \$1,000. Donated equipment is recorded at fair market value as of the date received. Depreciation and amortization is computed on the straight-line method over the following estimated useful lives:

Furniture and equipment	5 to 10 years
Buildings and improvements	10 to 25 years

Construction in progress is stated at cost and is not depreciated.

## CHILD FOUNDATION

### Notes to Financial Statements - Continued

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#### 2. Summary of Significant Accounting Policies - Continued

**Contribution Recognition** - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

**Donated Goods and Services** - Donations of property, equipment, materials, and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. During the years ended May 31, 2017 and 2016, the Organization received donated supplies totaling \$1,852 and \$1,380, respectively, which are included in supplies expense in the accompanying statement of functional expenses.

The Organization recognizes donated services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended May 31, 2017 and 2016, the Organization recognized specialized donated services totaling \$220 and \$1,560, respectively, which are included in legal and professional fees in the accompanying statement of financial position. Donated services not meeting the above criteria have not been reflected in the accompanying financial statements.

**Functional Allocation of Expenses** - The costs of providing the various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**Income Taxes** - Income taxes are not provided for in the financial statements since the Organization is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and provides guidance on various related matters such as interest, penalties, and required disclosures. Management believes the Organization does not have any uncertain tax positions. The Organization files informational returns. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return. The Organization has not paid any interest or penalties related to its income tax positions, and there are no audits for any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, would be included with general and administrative expenses.

**Reclassifications** - Certain reclassifications have been made to the 2016 information to conform to the 2017 presentation.

**CHILD FOUNDATION**

**Notes to Financial Statements - Continued**

**2. Summary of Significant Accounting Policies - Continued**

**Summarized Financial Information for 2016** - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended May 31, 2016, from which the summarized information was derived.

**3. Property and Equipment - Net**

Property and equipment consists of the following at May 31:

	<b>2017</b>	<b>2016</b>
Furniture and equipment	\$ 23,743	\$ 23,743
Leasehold improvements	-	1,200
Buildings and improvements	137,353	-
Land	194,344	-
Construction in progress	12,741	12,741
	368,181	37,684
Less accumulated depreciation and amortization	(17,760)	(12,655)
	\$ 350,421	\$ 25,029

**4. Capital Lease Obligation**

At May 31, 2017, the Organization was leasing certain equipment costing \$9,300, with accumulated amortization of \$6,643, under a capital lease expiring in June 2018. Future minimum lease payments and the present value of the net minimum lease payments as of May 31, 2017, are as follows:

<b>Years Ending May 31,</b>	<b>Amount</b>
2018	\$ 2,232
2019	186
	2,418
Less amounts representing interest	(98)
Present value of net minimum lease payments	\$ 2,320

Amortization expense of \$1,329 related to the leased equipment is included in depreciation and amortization expense for the years ended May 31, 2017 and 2016.

**CHILD FOUNDATION**

**Notes to Financial Statements - Continued**

**5. Temporarily Restricted Net Assets**

Temporarily restricted net assets are comprised of the following at May 31:

	2017	2016
Support in Iran	\$ 34,753	\$ 233,914
Sponsorless children and other relief	217,662	112,216
Support in Nepal	<u>6,453</u>	<u>4,449</u>
	<u>\$ 258,868</u>	<u>\$ 350,579</u>

During the year ended May 31, 2017, net assets of \$2,925,160, were released from donor restrictions by incurring expenses related to restricted purposes specified by donors.

**6. Program Expenses**

Program expenses reported on the statement of functional expenses consist of the following for the years ended May 31:

	2017	2016
Direct program aid:		
Iranian children	\$ 2,152,435	\$ 1,819,238
Afghan children	138,362	106,392
Indonesian children	22,406	23,500
Nepali children	<u>1,799</u>	<u>10,495</u>
Total direct program aid	2,315,002	1,959,625
Program administrative expenses	<u>610,158</u>	<u>553,237</u>
Total program expenses	<u>\$ 2,925,160</u>	<u>\$ 2,512,862</u>

**7. Concentrations**

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

## CHILD FOUNDATION

### Notes to Financial Statements - Continued

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#### 8. Affiliate Groups

International affiliates consist of small groups of local people who have come together to support the Organization's work. They are organized as independent nonprofit groups and are responsible for their own expenses and licensing in their home countries. They operate under covenant agreements with the Organization. Occasionally, the Organization provides support to their efforts and solicits contributions on their behalf. Contributions they raise are sent to the United States of America and the Organization forwards them to the beneficiary program. The accounts and activities of these affiliates are not included in the accompanying financial statements.

#### 9. Commitment

At May 31, 2017, the Organization had an operating lease agreement for certain office space that expires in February 2019. The Organization's annual lease commitment under this agreement is as follows:

Years Ending May 31,	Amount
2018	\$ 23,424
2019	<u>17,568</u>
	<u>\$ 40,992</u>

#### 10. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organization to concentrations of risk consist primarily of cash and cash equivalents. The Organization typically maintains balances of cash and cash equivalents in excess of the Federal Deposit Insurance Corporation insured limit.

#### 11. Subsequent Events

Management has evaluated subsequent events through October 12, 2017, the date the financial statements were available for issue.