

**CHILD FOUNDATION**  
**FINANCIAL STATEMENTS**  
**Year Ended May 31, 2011**

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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 US (a nonprofit corporation) as of May 31, 2011, 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, 2010 and in our report dated July 22, 2010, 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 US as of May 31, 2011, 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

September 9, 2011

**CHILD FOUNDATION**

**STATEMENT OF FINANCIAL POSITION**

**Year Ended May 31, 2011**

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

**ASSETS**

	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$364,105	\$450,377
Accounts Receivable	10,000	0
Property and equipment, net	24,930	2,774
Prepaid expenses	72,679	73,542
Security deposits	1,612	1,611
	<b>473,326</b>	<b>528,304</b>
<b>Total assets</b>	<b>473,326</b>	<b>528,304</b>

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued expenses	50,704	13,885
Payroll tax liabilities	12,532	5,213
	<b>63,236</b>	<b>19,098</b>
<b>Total liabilities</b>	<b>63,236</b>	<b>19,098</b>
<b>Net assets</b>		
Unrestricted	(160,660)	(220,620)
Temporarily restricted	570,750	729,826
	<b>410,090</b>	<b>509,206</b>
<b>Total net assets</b>	<b>410,090</b>	<b>509,206</b>
<b>Total liabilities and net assets</b>	<b>\$473,326</b>	<b>\$528,304</b>

**CHILD FOUNDATION**

**STATEMENT OF ACTIVITIES**

**Year Ended May 31, 2011**

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

	Unrestricted	Temporarily Restricted	Total <u>2011</u>	Total <u>2010</u>
<b>Revenues, gains and other support</b>				
Public support				
Contributions, Fundraising, Misc	397,908	1,867,196	2,265,104	2,019,334
Interest income	556		556	1,124
<b>Total Revenues</b>	<b>\$ 398,464</b>	<b>\$ 1,867,196</b>	<b>\$ 2,265,660</b>	<b>\$ 2,020,458</b>
Net assets released from restrictions				
Satisfaction of program restrictions	2,026,272	(2,026,272)		0
 <b>Expenses</b>				
Program services	1,892,461		1,892,461	1,602,129
Supporting services				
Management and general	338,504		338,504	176,828
Fundraising and development	133,811		133,811	78,107
<b>Total expenses</b>	<b>\$ 2,364,776</b>		<b>\$ 2,364,776</b>	<b>\$ 1,857,064</b>
 <b>Change in net assets</b>	 59,960	 (159,076)	 (99,116)	 163,394
Beginning net assets	(220,620)	729,826	509,206	345,812
<b>Net assets, end of year</b>	<b>\$ (160,660)</b>	<b>\$ 570,750</b>	<b>\$ 410,090</b>	<b>\$ 509,206</b>

See notes to financial statements

**CHILD FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended May 31, 2011**

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

	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL	
		Management and General	Fundraising and Dev.	2011	2010
Salaries and wages	\$ 238,007	\$ 43,133	\$ 34,206	\$ 315,346	268,935
Program Expenses	1,406,353			1,406,353	1,267,727
Scholarships	500			500	500
National Disaster Relief	40,000			40,000	
Fundraising			20,793	20,793	7,316
Payroll Taxes	21,125	4,679	3,468	29,272	22,339
Advertising		100	23,506	23,606	6,648
Dues & Subscriptions		2		2	125
Employee Benefits	24,294	4,674	3,524	32,492	34,133
Insurance	1,167	3,433	169	4,769	4,258
Legal	55,868	230,175		286,043	71,535
Licenses	217	5,769		5,986	3,617
Accounting and Audit		8,000		8,000	8,000
Occupancy	11,195	5,879	12,803	29,877	29,780
Office supplies	9,380	1,706	1,625	12,711	6,163
Parking		9		9	300
Postage	11,433	171	6,716	18,320	24,425
Printing	6,976	116	5,516	12,608	16,466
Professional fees	11,621	13,738	9,189	34,548	34,638
Programming/Web Maintenance	10,208	3,591	4,861	18,660	893
Marketing	3,280	1,896	601	5,777	
Telephone	2,688	2,187	5,598	10,473	11,221
Travel	6,057	3,185	853	10,095	5,039
Bank and merchant fees	29,536	4,603		34,139	25,800
Depreciation	2,035	666	276	2,977	5,205
Miscellaneous	521	792	108	1,420	2,001
	<b>\$1,892,461</b>	<b>\$338,504</b>	<b>\$133,812</b>	<b>\$2,364,776</b>	<b>\$ 1,857,064</b>

See notes to financial statements

CHILD FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended May 31, 2011

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

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Change in net assets	(99,117)	163,394
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Receivables	(10,000)	0
Prepaid expenses	864	1,260
Accounts payable and accrued expenses	36,819	6,439
Accrued payroll taxes	7,319	(358)
<b>Net cash provided by operating activities</b>	<u>(64,115)</u>	<u>170,735</u>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(25,134)	0
Depreciation and amortization	2,977	5,205
<b>Net cash used in investing activities</b>	<u>(22,157)</u>	<u>5,205</u>
<b>Net change in cash</b>	<b>(86,272)</b>	<b>175,940</b>
Cash, beginning of year	<u>450,377</u>	<u>274,437</u>
<b>Cash, end of year</b>	<u><u>364,105</u></u>	<u><u>450,377</u></u>

See notes to financial statements

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**May 31, 2011**

**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 needs, medical help, and other services to talented children in need. The children are typically located in Afghanistan, Indonesia, Iran and the United States. Child Foundation USA does not have any financial transactions with any entities in Iran and its only purpose is to relieve human suffering of the children who are in need due to extreme poverty.

- **Education Fund.** This fund is allocated to all of our sponsored countries as needed, excluding Iran. For sponsored children in Iran all funds are used to purchase bulk food and donation to Iranian children is given in equivalent food amount. 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, 2011**

**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, 2011**

**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 CFO.

**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, 2010, from which the summarized information was derived.

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2011**

**NOTE C - FIXED ASSETS**

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
School Improvements-Afghanistan	\$ 24,264	
Office equipment	31,231	\$ 30,362
Furniture	<u>9,210</u>	<u>9,210</u>
Total	\$ 64,705	\$ 39,572
Less Accumulated Depreciation	<u>( 39,775)</u>	<u>(36,798)</u>
<b>Net Assets</b>	<b><u>\$ 24,930</u></b>	<b><u>\$ 2,774</u></b>

**NOTE D - OPERATING LEASES**

The Organization has an operating lease for its Portland business office that expires in July, 2013. Rent expense under the lease totaled \$20,397 and \$23,084 for the years ended May 31, 2011 and 2010, respectively.

Future minimum rental commitments as of May 31, 2011 are as follows:

<u>Year Ending May 31,</u>	
2012	\$ 21,009
<u>2013</u>	<u>21,639</u>
	<u>\$ 42,648</u>

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2011**

**NOTE E - RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets at May 31, 2011 were restricted for the following programs:

	<b>2011</b>	<b>2010</b>
Sponsorships	\$510,750	\$ 703,549
Program specific donations	19,976	26,277
Grant Revenue	60,000	<u>0</u>
	<b>\$ 570,750</b>	<b>\$ 729,826</b>

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:

	<b>2011</b>	<b>2010</b>
Iranian and Afghan Children	\$1,381,644	\$1,234,689
Indonesian Children	14,000	10,000
	<u>1,395,644</u>	<u>\$1,267,767</u>

**CHILD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2011**

**NOTE G - GRANTS**

The Organization approved and disbursed the following grants to other charities during the years ended May 31, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Haiti Disaster Relief Fund	40,000	0
Miscellaneous	0	2,000
	<u>\$ 40,000</u>	<u>\$ 2,000</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. 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 has continuing legal expenses due to an investigation by US government agencies regarding a transaction prior to 2006. The investigation is expected to be completed in 2011 and the budgeted legal expense for the fiscal year 2011-2012 is \$300,000.