



**CHILD FOUNDATION
FINANCIAL STATEMENTS
Year Ended May 31, 2016**

**with
Independent Auditors' Report**

CHILD FOUNDATION

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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, 2016, 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, 2016, 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.

Huffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
October 11, 2016

CHILD FOUNDATION
Statement of Financial Position

May 31, 2016

ASSETS

Cash and cash equivalents	\$ 1,075,047
Prepaid expenses and other assets	68,282
Property and equipment - net (<i>Notes 3 and 4</i>)	12,288
Security deposits	<u>2,400</u>
Total assets	<u><u>\$ 1,158,017</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 3,906
Accrued payroll and related costs	17,323
Accrued direct program aid	536,672
Capital lease obligation (<i>Note 4</i>)	<u>4,300</u>

Total liabilities **562,201**

Commitment (*Note 9*)

Net assets:

Unrestricted	245,237
Temporarily restricted (<i>Note 5</i>)	<u>350,579</u>

Total net assets **595,816**

Total liabilities and net assets **\$ 1,158,017**

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

CHILD FOUNDATION

Statement of Activities

Year Ended May 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 230,232	\$ 2,736,790	\$ 2,967,022
Donated materials and services	2,940	-	2,940
Other income	37,027	-	37,027
Interest income	285	-	285
Special event - net of direct expenses of \$13,594	(2,465)	-	(2,465)
Loss on disposal of property and equipment	(251)	-	(251)
Net assets released from restriction (<i>Note 5</i>)	2,512,862	(2,512,862)	-
Net support and revenue	2,780,630	223,928	3,004,558
Expenses:			
Program services (<i>Note 6</i>)	2,512,862	-	2,512,862
General and administrative	90,816	-	90,816
Fundraising	76,911	-	76,911
Total expenses	2,680,589	-	2,680,589
Increase in net assets	100,041	223,928	323,969
Net assets, beginning of year	145,196	126,651	271,847
Net assets, end of year	\$ 245,237	\$ 350,579	\$ 595,816

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

CHILD FOUNDATION

Statement of Functional Expenses

Year Ended May 31, 2016

	Program Services	General and Administrative	Fundraising	Total
Payroll and related costs	\$ 396,292	\$ 13,658	\$ 29,355	\$ 439,305
Direct program aid	1,959,625	-	-	1,959,625
Advertising	-	-	724	724
Bank fees	52,657	3,437	4,274	60,368
Compliance	5,247	714	1,856	7,817
Depreciation and amortization	3,731	124	282	4,137
Small equipment	1,386	25	50	1,461
Insurance	1,232	3,008	72	4,312
Interest	-	442	-	442
Executive meetings	-	4,549	-	4,549
Internet and telephone	9,651	272	627	10,550
Information technology	5,800	133	2,309	8,242
Legal and professional fees	11,235	56,643	4,246	72,124
Licenses and fees	106	280	2,453	2,839
Miscellaneous	706	37	109	852
Outreach events	2,449	-	1,430	3,879
Postage	5,883	1,550	7,766	15,199
Printing	10,932	4,541	17,589	33,062
Web design	926	23	51	1,000
Rent	36,271	473	1,019	37,763
Repairs and maintenance	1,907	208	-	2,115
Supplies	2,341	179	1,434	3,954
Travel	4,032	504	1,230	5,766
Utilities	454	16	34	504
Total expenses	\$ 2,512,862	\$ 90,816	\$ 76,911	\$ 2,680,589

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

CHILD FOUNDATION

Statement of Cash Flows

Year Ended May 31, 2016

Cash flows from operating activities:

Increase in net assets	\$ 323,969
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,137
Loss on disposal of property and equipment	251
Increase in:	
Prepaid expenses and other assets	(44,781)
Increase (decrease) in:	
Accounts payable	(20,650)
Accrued payroll and related costs	5,805
Accrued direct program aid	<u>536,672</u>

Net cash provided by operating activities **805,403**

Cash flows from investing activities:

Purchases of property and equipment	<u>(9,225)</u>
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Net cash used by investing activities **(9,225)**

Cash flows from financing activities:

Principal payments on capital lease obligation	<u>(1,838)</u>
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Net cash used by financing activities **(1,838)**

Increase in cash and cash equivalents **794,340**

Cash and cash equivalents, beginning of year 280,707

Cash and cash equivalents, end of year **\$ 1,075,047**

Supplemental disclosure of cost flow information:

Cash paid during the year for interest	\$ 442
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The accompanying notes are an integral part of the financial statements.

CHILD FOUNDATION

Notes to Financial Statements

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, 2016, there were approximately 5,300 active sponsorships. During the fiscal year ended May 31, 2015, the Organization received an annually renewable special license to send \$2,000,000 in cash, per calendar year, to Iran. Amounts transmitted were \$1,298,303 for the fiscal year ended May 31, 2016. In addition, \$514,672 was sent shortly after May 31, 2016.

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. The Organization also supports the programs of Future for Afghan Children, which runs a computer school, a theater camp, and a cultural enrichment program for impoverished children, in addition to providing social services to children affected by poverty and violence. As of May 31, 2016, there were approximately 210 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, 2016.

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, 2016, the Organization provided support for 20 girls in Nepal, regardless of whether they received sponsorship support.

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

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 either 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 - Property and equipment 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:

Equipment	4 to 7 years
Furniture	10 years
Leasehold improvements	3 years

Maintenance and repairs are expensed when incurred. Betterments and renewals are capitalized.

CHILD FOUNDATION

Notes to Financial Statements - Continued

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 year ended May 31, 2016, the Organization received donated supplies totaling \$1,380 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 year ended May 31, 2016, the Organization recognized specialized donated services totaling \$1,560 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.

CHILD FOUNDATION

Notes to Financial Statements - Continued

3. Property and Equipment - Net

Property and equipment consists of the following at May 31, 2016:

Furniture and equipment	\$ 23,743
Leasehold improvements	<u>1,200</u>
	24,943
Less accumulated depreciation and amortization	<u>(12,655)</u>
	<u><u>\$ 12,288</u></u>

4. Capital Lease Obligation

At May 31, 2016, the Organization was leasing certain equipment costing \$9,300, with accumulated amortization of \$5,314, under a capital lease expiring in 2018. Future minimum lease payments and the present value of the net minimum lease payments as of May 31, 2016, are as follows:

Years Ending May 31,	Amount
2017	\$ 2,232
2018	2,232
2019	<u>186</u>
	4,650
Less amounts representing interest	<u>(350)</u>
Present value of net minimum leases payments	<u><u>\$ 4,300</u></u>

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

Support in Iran	\$ 233,914
Sponsorless children and other relief	112,216
Support in Nepal	4,449
	<u>4,449</u>
	<u>\$ 350,579</u>

During the year ended May 31, 2016, net assets of \$2,512,862 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 year ended May 31, 2016:

Direct program aid:	
Iranian children	\$ 1,819,238
Afghan children	106,392
Indonesian children	23,500
Nepali children	10,495
	<u>1,959,625</u>
Total direct program aid	1,959,625
Program administrative expenses	553,237
	<u>553,237</u>
Total program expenses	<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.

8. Affiliate Groups

International affiliates consist of small groups of 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.

CHILD FOUNDATION

Notes to Financial Statements - Continued

9. Commitment

At May 31, 2016, 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
2017	\$ 23,424
2018	23,424
2019	<u>17,568</u>
	<u><u>\$ 64,416</u></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 (FDIC) insured limit.

11. Subsequent Events

Management has evaluated subsequent events through October 11, 2016, the date the financial statements were available for issue.