



**CHILD FOUNDATION
FINANCIAL STATEMENTS
Year Ended May 31, 2018**

**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, 2018, 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, 2018, 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.

Other Matters

Prior Period Adjustment

As described in *Note 10* to the financial statements, management determined that the amount of temporarily restricted net assets as previously reported at May 31, 2017, was overstated. Accordingly, amounts have been reclassified from temporarily restricted net assets to unrestricted net assets as of May 31, 2017, to correct the error. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Child Foundation's 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017, (as restated for the matter described in the preceding paragraph) 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 9, 2018

CHILD FOUNDATION
Statement of Financial Position

May 31, 2018 <i>(With Comparative Amounts for 2017)</i>	2018	2017 (Restated)
ASSETS		
Cash and cash equivalents	\$ 1,045,625	\$ 449,614
Contributions receivable - due within one year	135,460	-
Other receivables	30,749	25,831
Prepaid expenses and other assets	24,417	39,520
Property and equipment - net <i>(Notes 3 and 4)</i>	366,680	350,421
Total assets	\$ 1,602,931	\$ 865,386
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 19,570	\$ 45,344
Accrued payroll and related costs	33,235	23,515
Accrued direct program aid	500,202	110,944
Capital lease obligation <i>(Note 4)</i>	42	2,320
Total liabilities	553,049	182,123
Net assets:		
Unrestricted	913,390	552,366
Temporarily restricted <i>(Notes 5 and 10)</i>	136,492	130,897
Total net assets	1,049,882	683,263
Total liabilities and net assets	\$ 1,602,931	\$ 865,386

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

CHILD FOUNDATION

Statement of Activities

Year Ended May 31, 2018 *(With Comparative Totals for 2017)*

	Unrestricted (Restated)	Temporarily Restricted (Restated)	Total	
			2018	2017 (Restated)
Support and revenue:				
Contributions	\$ 687,218	\$ 3,649,052	\$ 4,336,270	\$ 3,218,242
Donated materials and services	7,974	-	7,974	2,072
Other income	18,603	-	18,603	8,976
Interest income	646	-	646	288
Special event - net of direct expenses of \$36,869 for 2017	-	-	-	(20,182)
Net assets released from restriction <i>(Note 5)</i>	3,643,457	(3,643,457)	-	-
Net support and revenue	4,357,898	5,595	4,363,493	3,209,396
Expenses:				
Program services <i>(Note 6)</i>	3,743,708	-	3,743,708	2,925,160
General and administrative	107,864	-	107,864	97,940
Fundraising	145,302	-	145,302	98,849
Total expenses	3,996,874	-	3,996,874	3,121,949
Increase in net assets	361,024	5,595	366,619	87,447
Net assets, beginning of year <i>(Note 10)</i>	552,366	130,897	683,263	595,816
Net assets, end of year	\$ 913,390	\$ 136,492	\$ 1,049,882	\$ 683,263

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

CHILD FOUNDATION
Statement of Functional Expenses

Year Ended May 31, 2018 (With Comparative Totals for 2017)

	Program Services	General and Administrative	Fundraising	Total	
				2018	2017
Payroll and related costs	\$ 472,143	\$ 10,359	\$ 46,912	\$ 529,414	\$ 461,758
Direct program aid	3,084,414	-	-	3,084,414	2,315,002
Bank fees	66,863	598	12,580	80,041	66,811
Professional fees	6,651	39,134	2,672	48,457	46,917
Printing	18,856	9,286	11,444	39,586	53,310
Postage	14,457	218	13,109	27,784	21,635
Audit and accounting	-	18,500	-	18,500	18,000
Repairs and maintenance	15,668	338	1,804	17,810	3,962
Legal fees	7,769	10,255	-	18,024	10,095
Miscellaneous	50	5,099	10,030	15,179	7,322
Outreach events	-	-	13,075	13,075	3,717
Compliance	-	575	12,116	12,691	3,252
Information technology	10,160	169	1,018	11,347	12,429
Depreciation and amortization	9,097	196	902	10,195	6,305
Internet and telephone	7,944	175	761	8,880	10,043
Travel	3,364	3,212	1,770	8,346	4,179
Rent	7,808	-	67	7,875	39,655
Utilities	6,031	130	598	6,759	1,865
Advertising	-	252	6,086	6,338	1,725
Supplies	3,291	181	9,031	12,503	10,167
Small equipment	5,091	77	460	5,628	5,628
Insurance	2,489	2,892	241	5,622	4,909
Executive meetings	-	5,235	-	5,235	3,543
Web design	1,428	31	141	1,600	1,850
Dues and subscriptions	-	275	472	747	-
Licenses and fees	-	483	-	483	4,878
Taxes	134	3	13	150	2,721
Interest	-	141	-	141	271
Training	-	50	-	50	-
Total expenses	\$ 3,743,708	\$ 107,864	\$ 145,302	\$ 3,996,874	\$ 3,121,949

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

CHILD FOUNDATION

Statement of Cash Flows

Year Ended May 31, 2018 (With Comparative Totals for 2017)	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 366,619	\$ 87,447
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	10,195	6,305
Bad debt loss	4,000	-
(Increase) decrease in:		
Contributions receivable	(135,460)	-
Other receivables	(8,918)	(31,529)
Prepaid expenses and other assets	15,103	24,119
Increase (decrease) in:		
Accounts payable	(25,774)	41,438
Accrued payroll and related costs	9,720	6,192
Accrued direct program aid	389,258	(425,728)
Net cash provided (used) by operating activities	624,743	(291,756)
Cash flows from investing activities:		
Purchases of property and equipment	(26,454)	(331,697)
Net cash used by investing activities	(26,454)	(331,697)
Cash flows from financing activities:		
Principal payments on capital lease obligation	(2,278)	(1,980)
Net cash used by financing activities	(2,278)	(1,980)
Increase (decrease) in cash and cash equivalents	596,011	(625,433)
Cash and cash equivalents, beginning of year	449,614	1,075,047
Cash and cash equivalents, end of year	\$ 1,045,625	\$ 449,614
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 141	\$ 271

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, 2018, there were approximately 6,500 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, 2018 and 2017, were \$2,602,140 and \$2,564,967, respectively. In addition, \$220,000 was sent in July 2018.

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, 2018, there were approximately 300 active sponsorships.

Indonesia - The Organization provides support to needy children, enabling them to continue their education. The Organization supported approximately 40 children during the year ended May 31, 2018.

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, 2018, the Organization provided support for 31 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

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
Software and website	5 years

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 years ended May 31, 2018 and 2017, the Organization received donated supplies totaling \$6,692 and \$1,852, 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, 2018 and 2017, the Organization recognized specialized donated services totaling \$1,282 and \$220, respectively, which are included in legal 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 2017 information to conform to the 2018 presentation.

CHILD FOUNDATION

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Summarized Financial Information for 2017 - 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, 2017, from which the summarized information was derived.

3. Property and Equipment - Net

Property and equipment consists of the following at May 31:

	2018	2017
Furniture and equipment	\$ 28,023	\$ 23,743
Buildings and improvements	155,567	137,353
Land	194,344	194,344
Software and website	<u>16,701</u>	<u>12,741</u>
	394,635	368,181
Less accumulated depreciation and amortization	<u>(27,955)</u>	<u>(17,760)</u>
	<u><u>\$ 366,680</u></u>	<u><u>\$ 350,421</u></u>

4. Capital Lease Obligation

At May 31, 2018, the Organization was leasing certain equipment costing \$9,300, with accumulated amortization of \$7,972, under a capital lease expiring in June 2018. A final payment of \$42 is due in June 2018.

Amortization expense of \$1,329 related to the leased equipment is included in depreciation and amortization expense for the years ended May 31, 2018 and 2017.

CHILD FOUNDATION

Notes to Financial Statements - Continued

5. Temporarily Restricted Net Assets

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

	2018	2017 (Restated)
Support in Iran	\$ 9,761	\$ 34,753
Sponsorless children and other relief	117,036	89,691
Support in Nepal	<u>9,695</u>	<u>6,453</u>
	<u>\$ 136,492</u>	<u>\$ 130,897</u>

During the year ended May 31, 2018, net assets of \$3,643,457, 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:

	2018	2017
Direct program aid:		
Iranian children	\$ 2,946,527	\$ 2,152,435
Afghan children	123,528	138,362
Indonesian children	7,789	22,406
Nepali children	5,570	1,799
Other	<u>1,000</u>	<u>-</u>
Total direct program aid	3,084,414	2,315,002
Program administrative expenses	<u>659,294</u>	<u>610,158</u>
Total program expenses	<u>\$ 3,743,708</u>	<u>\$ 2,925,160</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

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. 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.

10. Prior Period Adjustment

During the year ended May 31, 2018, management determined that certain temporarily restricted net assets were not properly released during the year ended May 31, 2017. Accordingly, the net assets balances of the Organization as of May 31, 2017, have been restated as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Net assets at May 31, 2017 - as previously reported	\$ 424,395	\$ 258,868	\$ 683,263
Additional temporarily restricted net assets released from restrictions	<u>127,971</u>	<u>(127,971)</u>	<u>-</u>
Net assets at May 31, 2017 - as restated	<u>\$ 552,366</u>	<u>\$ 130,897</u>	<u>\$ 683,263</u>

The restatement had no effect on the previously reported increase in net assets for the year ended May 31, 2017.

11. Subsequent Events

Management has evaluated subsequent events through October 9, 2018, the date the financial statements were available for issue.