

CHILD AID

FINANCIAL STATEMENTS
Year Ended December 31, 2012

With

Independent Auditors' Report

**CHILD AID
DECEMBER 31, 2012**

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Treasurer's Report

The financial statements and other information contained in this report have been prepared by management, which is responsible for the information's integrity and objectivity. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and are deemed to present fairly the financial position of Child Aid and the changes in its net assets and cash flows. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

As a means of fulfilling its responsibility for the integrity of financial information included in this report, management relies on a system of internal controls established to ensure, within reasonable limits, that assets are safeguarded against loss or unauthorized use, that transactions are properly recorded and executed in accordance with management's authorization, and that the accounting records can be relied upon to prepare financial statements in accordance with generally accepted accounting principles. This system is augmented by careful selection and training of qualified personnel and the dissemination of written policies and procedures.

The financial statements have been examined by the Child Aid's independent accountants, James E. Richman, CPA, PC whose report follows. Their examination was made in accordance with generally accepted auditing standards. The Board of Directors meets periodically with management and the independent accountants to review accounting, auditing, internal accounting controls, and financial reporting matters, and to ensure that all responsibilities are fulfilled with regard to the objectivity and integrity of the Child Aid's financial statements. The Board of Directors also reviews the scope and results of Child Aid's audit, and current and emerging accounting and financial requirements and practices affecting Child Aid.



Richard Carroll
Co-founder & Treasurer
Board of Directors
Child Aid

James E. Richman, CPA, PC
Certified Public Accountant
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Child Aid

We have audited the accompanying financial statements of Child Aid (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the financial statements of Child Aid as of December 31, 2011 and, in our report dated April 13, 2012 we expressed an unqualified opinion on those 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.

Auditor's 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 of 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 auditor's 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 Aid as of December 31, 2012, 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.

James E. Richman, CPA, PC

James E. Richman, CPA, PC
Portland, Oregon
March 25, 2013

CHILD AID
STATEMENT OF FINANCIAL POSITION
December 31, 2012
(With Comparative Amounts for 2011)

	2012	2011
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and equivalents	\$ 159,585	\$ 187,711
Unconditional promises to give	108,920	55,625
Prepaid expenses	9,883	3,344
Total current assets	278,388	246,680
EQUIPMENT	1,308	972
INVESTMENTS	1,416,955	1,192,148
TOTAL ASSETS	\$ 1,696,651	\$ 1,439,800
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 11,301	\$ 5,661
Accrued compensated absences	15,506	5,026
Conditional contract advances	-	10,000
Total current liabilities	26,807	20,687
NET ASSETS:		
Unrestricted	1,264,441	1,092,873
Temporarily restricted	405,403	326,240
Total net assets	1,669,844	1,419,113
TOTAL LIABILITIES AND NET ASSETS	\$ 1,696,651	\$ 1,439,800

See accompanying notes to financial statements.

CHILD AID
STATEMENT OF ACTIVITIES
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE:				
Contributions and grants	\$ 301,261	\$ 510,960	\$ 812,221	\$ 783,726
In-kind contributions of books, material and service	503,214	-	503,214	571,822
Realized investment gains	153,780	6,086	159,866	141,009
Unrealized investment gains (losses)	10,325	11,196	21,521	(130,699)
Interest and dividends	36,574	3,338	39,912	30,790
Other	(1,017)	-	(1,017)	-
	<u>1,004,137</u>	<u>531,580</u>	<u>1,535,717</u>	<u>1,396,648</u>
Net assets released from restrictions:				
Satisfaction of purpose restrictions	28,622	(28,622)	-	-
Expiration of time restrictions	423,795	(423,795)	-	-
	<u>1,456,554</u>	<u>79,163</u>	<u>1,535,717</u>	<u>1,396,648</u>
EXPENSES:				
Program services	1,143,466	-	1,143,466	1,095,811
Management and general	83,554	-	83,554	77,136
Fund raising	58,983	-	58,983	64,492
Total expenses	<u>1,286,003</u>	<u>-</u>	<u>1,286,003</u>	<u>1,237,439</u>
INCREASE IN NET ASSETS	170,551	79,163	249,714	159,209
NET ASSETS AT BEGINNING OF YEAR	<u>1,092,873</u>	<u>326,240</u>	<u>1,419,113</u>	<u>1,259,904</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,263,424</u>	<u>\$ 405,403</u>	<u>\$ 1,668,827</u>	<u>\$ 1,419,113</u>

See accompanying notes to financial statements.

CHILD AID
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012				2011
	Program Services	Management and General	Fund Raising	Total	
Compensation and related expenses:					
Compensation	\$ 145,576	\$ 47,610	\$ 31,494	\$ 224,680	\$ 177,992
Employee benefits	23,311	8,638	5,391	37,340	34,146
Payroll taxes and fees	12,036	4,968	2,912	19,916	16,683
Grants and allocations	599,782	-	-	599,782	713,835
Bank fees	1,580	1,642	430	3,652	1,694
Depreciaton expense	-	1,093	-	1,093	88
Conference and meetings	10,533	424	701	11,658	13,587
Licenses and fees	5,679	2,800	5,188	13,667	10,263
Rent	11,640	5,220	1,740	18,600	18,604
Postage and shipping	18,387	1,019	3,256	22,662	21,005
Printing and publications	14,903	5,092	5,560	25,555	14,795
Professional fees	231,687	3,260	1,122	236,069	145,738
Supplies	10,652	1,192	644	12,488	10,007
Telephone	5,774	507	229	6,510	5,082
Travel	51,926	89	316	52,331	53,920
Total expenses	<u>\$ 1,143,466</u>	<u>\$ 83,554</u>	<u>\$ 58,983</u>	<u>\$ 1,286,003</u>	<u>\$ 1,237,439</u>

See accompanying notes to financial statements.

CHILD AID
STATEMENT OF CASH FLOWS
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grantors and contributors	\$ 623,212	\$ 643,384
Interest and dividends received	48,585	38,423
Cash paid to suppliers and employees	(772,115)	(670,747)
Net cash provided by (used in) operating activities	(100,318)	11,060
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	487,559	309,186
Purchases of investments	(413,938)	(278,200)
Payments received on note receivable	-	4,174
Purchases of equipment	(1,429)	(1,060)
Net cash provided by investing activities:	72,192	34,100
NET CHANGE IN CASH AND EQUIVALENTS	(28,126)	45,160
CASH AND EQUIVALENTS, BEGINNING OF YEAR	187,711	142,551
CASH AND EQUIVALENTS, END OF YEAR	\$ 159,585	\$ 187,711

See accompanying notes to financial statements.

CHILD AID
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Child Aid is a private, nonprofit organization that conducts programs that provide educational opportunity for impoverished children in Latin America. The Organization's primary focus is literacy education and reading promotion. Child Aid works most intensively in the Central Highlands of Guatemala, where literacy rates and education levels are among the lowest in the region. Through its Reading for Life program, Child Aid partners with numerous libraries and schools, many of them in rural, indigenous communities. The program delivers thousands of books, trains librarians and teachers, supports library improvements, and helps establish regular reading programs and literacy-related activities for children. Child Aid also provides in depth training to students studying to become teachers.

Child Aid also provides financial support and oversight for two independent not-for-profit organizations operating in Central America. The first is CORAL (Centro Oaxaqueno de Rehabilitacion de Audicion y Lenguaje) located in Oaxaca, Mexico. CORAL provides impoverished deaf and hard-of-hearing children and adults with affordable audiology services, speech therapy, hearing-health education, outreach and advocacy. The second organization receiving support is FUNDIT (Fundacion para Desarrollo Integral de El Tejar), located in El Tejar, Guatemala. FUNDIT's primary programs include a model rural public library, a scholarship program supporting primary and secondary students who otherwise would not be able to continue in school, and a three-year, early-start Montessori-style school for children of pre-school and kindergarten age.

Child Aid is supported primarily through contributions from individuals and grants from foundations and businesses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation

Child Aid is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and 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 restrictions.

Contributions and Grants

Contributions and grants are recognized when the donor makes a promise to Child Aid that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions and grants that are received with donor stipulations that limit their use for specific purposes or future use are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. Unconditional promises to give are recorded as received, at net realizable value.

In-Kind Contributions

Contributions of assets other than cash are recorded at their estimated fair market value.

Child Aid recognizes the fair value of contributed services received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. In-kind services of \$50,575 were recognized during the year ended December 31, 2012.

Child Aid receives contributed services from a large number of volunteers who assist in program efforts. Child Aid has not recognized the value of such services on its financial statements in that they do not meet the criteria for recognition stated above.

In-kind contributions of equipment and other materials, as well as the free use of facilities, are recorded when there is an objective basis upon which to value the contribution and where the contribution is an essential part of Child Aid's activities.

In-kind contributions of books and program materials valued at \$452,639 and securities valued at \$116,522 (included in contributions and grants on the statement of activities) were recognized during 2012.

Investment Income

Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Concentrations of Credit Risk

Child Aid deposits its cash in high credit quality institutions. At times such cash deposits may be in excess of the FDIC insurance limit. Child Aid believes no significant concentration of credit risk exists with respect to these cash deposits. Certain receivables may also subject Child Aid to concentrations of credit risk.

Cash and Equivalents

For purposes of the statement of cash flows, Child Aid considers all cash and other liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and short-term investments held in institutional money market funds are reported as investments instead of cash because of the Organization's investment practices.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects the amounts management considers appropriate in relation to the receivables outstanding based on collection experience, economic conditions, and credit risk quality. Management believes the receivables are collectible in full and that no allowance for uncollectible receivables is necessary.

Fixed Assets and Depreciation

Equipment is carried at cost, and at market value when acquired by gift. Depreciation is provided on a double-declining balance basis over the estimated useful lives of the respective assets, which is generally five years. Child Aid follows the practice of capitalizing all expenditures for equipment in excess of \$500.

Income Taxes

Child Aid is exempt from federal and state income taxes under Sections 501(c)(3) of the Internal Revenue Code and comparable state law. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, an organization must also evaluate its tax positions and provide for a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at December 31, 2012.

The Organization files Form 990 in the U.S. federal jurisdiction, and is generally no longer subject to examination by the Internal Revenue Service for years ending before December 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of Child Aid's management, such differences would not be significant.

Advertising Expenses

Advertising costs are charged to expense as they are paid.

Functional Allocation of Expenses

The costs of providing the various programs and supporting activities of Child Aid have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited in accordance with Child Aid's cost allocation plan.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and equivalents, unconditional promises to give

The carrying amount approximates fair value because of the short maturity of these instruments.

Investments

The fair values of investments are estimated based on quoted market prices for those investments.

Summarized Financial Information for 2011

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Also, prior-year summarized comparative information on the statement of functional expenses is not presented in sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the agency's financial statements for the year ended December 31, 2011, from which the summarized information was derived. Certain reclassifications have been made to 2011 amounts to conform to the 2012 presentation.

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give at December 31, 2012 totals \$108,920, all of which is expected to be collected within one year. Based on knowledge of the donors, management has determined that no allowance for uncollectible pledges is necessary.

Child Aid has obtained a grant commitment for use in the CORAL program from the Oberkotter Foundation amounting to \$59,000 for 2013 that is conditional on meeting certain matching requirements in each grant year.

Child Aid has a memorandum of understanding with Pencils of Promise for use in the Reading for Life program amounting to \$203,780 for 2013-2015 that is conditional on meeting certain goals and reporting requirements in each year.

NOTE 4 –EQUIPMENT

Equipment consists of the following as of December 31, 2012:

Computer equipment	\$ 5,069
Less accumulated depreciation	<u>3,761</u>
	<u>\$ 1,308</u>

NOTE 5 – FAIR VALUE MEASUREMENTS

At December 31, 2012, all of Child Aid’s investments are measured at fair value on a recurring basis using quoted prices in active markets for identical assets (i.e., Level 1), and consist of the following:

<u>Description of Securities</u>	<u>Fair Value</u>
Cash and equivalents	\$ 161,463
Fixed income	186,554
Equities	908,081
Real estate securities	122,646
Other	<u>38,211</u>
	<u>\$ 1,416,955</u>

Investment return for 2012 is summarized as follows:

Net realized investment gains	\$ 159,866
Net unrealized investment gains	22,538
Interest and dividend income	<u>39,912</u>
	<u>\$ 222,316</u>

NOTE 6- RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Temporarily restricted net assets consist of the following as of December 31, 2012:

The Waljo’k Foundation for FUNDIT	\$ 176,290
Reading for Life	185,424
Available for general operations in 2013	<u>43,689</u>
	<u>\$ 405,403</u>

NOTE 7 –NET ASSETS RELEASED FROM RESTRICTIONS

During 2012, \$423,795 was expended in satisfaction of donor-imposed purpose restrictions, time restrictions expired on net assets amounting to \$28,622.

NOTE 8– RETIREMENT PLAN

Child Aid has adopted a SEP-IRA retirement plan to cover essentially all employees who have been employed for one year or more. Child Aid's contributions to the plan in 2012 amounted to \$9,439.

NOTE 9 – LEASE COMMITMENTS

During 2012, Child Aid conducted its operations in office facilities rented under an operating lease agreement that expired in March 2013. Child Aid continues to rent these office facilities on a month-to-month basis.

Minimum required annual payments under these noncancelable leases are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2013	\$4,350

Total rent expense amounted to \$18,600 for 2012.

NOTE 10 – STATEMENT OF CASH FLOWS RECONCILIATION

The following represents a reconciliation of the increase in net assets (as reported on the statement of activities) to net cash used in operating activities (as reported on the statement of cash flows):

Increase in net assets	\$ 250,731
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,093
Realized investment gains	(159,866)
Unrealized investment gains	(22,538)
In-kind contributions of securities	(116,024)
(Increase) decrease in:	
Unconditional promises to give	(53,295)
Prepaid expenses	(6,539)
Increase (decrease) in:	
Accounts payable	5,640
Compensated absences	10,480
Conditional contract advances	(10,000)
Total adjustments	<u>(351,049)</u>
Net cash used in operating activities	<u>\$ (100,318)</u>

NOTE 11- SUBSEQUENT EVENTS

Subsequent events were evaluated through March 25, 2013, which is the date the financial statements were available to be issued.