

CHILDREN'S FUND, INC.

FINANCIAL STATEMENTS

June 30, 2017 and 2016

CHILDREN'S FUND, INC.

June 30, 2017 and 2016

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Children's Fund, Inc.
San Bernardino, California

Report on Financial Statements

We have audited the accompanying financial statements of Children's Fund, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 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.

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 and with *Government Auditing Standards*, issued by the U.S. Comptroller General. 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 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 Children's Fund, Inc., as of June 30, 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 Children's Fund, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 27, 2017, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



November 27, 2017
San Bernardino, California

CHILDREN'S FUND, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(Summarized Totals for 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and Equivalents	\$ 1,201,307	\$ 875,928
Certificates of Deposit	-	300,000
Accounts Receivable	409,316	426,475
Pledges Receivable	762,213	735,029
Program Inventory	141,845	103,450
Prepaid Expenses	22,352	10,821
Total Current Assets	<u>2,537,033</u>	<u>2,451,703</u>
Property and Equipment		
Furniture and Equipment	226,120	226,120
Tenant Improvements	5,088	5,088
Accumulated Depreciation	<u>(170,101)</u>	<u>(138,780)</u>
Total Property and Equipment	<u>61,107</u>	<u>92,428</u>
Other Assets		
Investments	226,812	209,096
Pledges Receivable	400,000	-
Security Deposit	<u>8,626</u>	<u>8,626</u>
Total Other Assets	<u>635,438</u>	<u>217,722</u>
Total Assets	<u>\$ 3,233,578</u>	<u>\$ 2,761,853</u>

See Accompanying Notes to Financial Statements.

CHILDREN'S FUND, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(Summarized Totals for 2016)

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 408,682	\$ 460,042
Accrued Payroll Costs	51,965	72,134
Total Liabilities	<u>460,647</u>	<u>532,176</u>
Net Assets		
Board Designated	226,812	209,096
Other Unrestricted	1,304,214	1,540,666
Total Unrestricted	1,531,026	1,749,762
Temporarily Restricted	1,241,905	479,915
Total Net Assets	<u>2,772,931</u>	<u>2,229,677</u>
Total Liabilities and Net Assets	<u>\$ 3,233,578</u>	<u>\$ 2,761,853</u>

See Accompanying Notes to Financial Statements.

CHILDREN'S FUND, INC.

STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2017
(Summarized Totals for 2016)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues and Support				
Fundraising Event Revenue	\$ 1,389,980	\$ -	\$ 1,389,980	\$ 1,124,841
Direct Event Costs	(325,833)	-	(325,833)	(278,410)
Net Fundraising Events	1,064,147	-	1,064,147	846,431
Contributions	979,520	928,123	1,907,643	960,159
First 5 Contracts	678,320	-	678,320	626,961
In-Kind Contributions	462,432	-	462,432	753,746
County Contracts	404,362	-	404,362	428,105
Other Contracts	107,172	-	107,172	89,935
Investment and Other Income	18,708	-	18,708	15,096
	<u>3,714,661</u>	<u>928,123</u>	<u>4,642,784</u>	<u>3,720,433</u>
Released From Restriction	166,133	(166,133)	-	-
Total Revenues and Support	<u>3,880,794</u>	<u>761,990</u>	<u>4,642,784</u>	<u>3,720,433</u>
Expenses				
Program Services				
Community Services	3,594,090	-	3,594,090	3,944,376
Support Services				
Management and General	384,193	-	384,193	368,281
Fundraising	121,247	-	121,247	97,727
Total Expenses	<u>4,099,530</u>	<u>-</u>	<u>4,099,530</u>	<u>4,410,384</u>
Change in Net Assets	(218,736)	761,990	543,254	(689,951)
Net Assets - Beginning	<u>1,749,762</u>	<u>479,915</u>	<u>2,229,677</u>	<u>2,919,628</u>
Net Assets - Ending	<u>\$ 1,531,026</u>	<u>\$ 1,241,905</u>	<u>\$ 2,772,931</u>	<u>\$ 2,229,677</u>

See Accompanying Notes to Financial Statements.

CHILDREN'S FUND, INC.

STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2017
(Summarized Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ 543,254	\$ (689,951)
Noncash Items Included in Revenues and Expenses -		
Depreciation	31,321	35,064
Loss on Sale of Computer	-	593
Change in Cash Resulting From Changes In:		
Accounts Receivable	17,159	(56,326)
Pledges Receivable	(427,184)	(182,835)
Program Inventory	(38,395)	(25,486)
Prepaid Expenses and Deposits	(11,531)	3,393
Accounts Payable	(51,360)	399,060
Accrued Payroll Costs	(20,169)	24,405
Cash Provided (Used) By Operating Activities	<u>43,095</u>	<u>(492,083)</u>
Cash Flows From Investing Activities		
Transfer from Certificates of Deposit	300,000	300,000
Transfer (to) Investments	(17,716)	(106,173)
Proceeds from Sale of Computer	-	500
Cash Provided By Investing Activities	<u>282,284</u>	<u>194,327</u>
Increase (Decrease) in Cash and Equivalents	325,379	(297,756)
Cash and Equivalents – Beginning	<u>875,928</u>	<u>1,173,684</u>
Cash and Equivalents – Ending	<u>\$ 1,201,307</u>	<u>\$ 875,928</u>

Supplemental Cash Flow Information

Operating activities included no payments for interest or income taxes in 2017 and 2016.

See Accompanying Notes to Financial Statements.

CHILDREN'S FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2017

(Summarized Totals for 2016)

	<u>Community</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund</u> <u>Raising</u>	<u>2017 Total</u> <u>Expenses</u>	<u>2016 Total</u> <u>Expenses</u>
Salaries and Wages	\$ 559,035	\$ 216,451	\$ 55,515	\$ 831,001	\$ 917,145
Employee Benefits	52,114	14,447	4,003	70,564	64,740
Payroll Taxes	50,967	14,129	3,914	69,010	73,848
Pension Costs	14,345	3,976	1,102	19,423	12,383
Total Salaries and Costs	676,461	249,003	64,534	989,998	1,068,116
Community Services					
Assessment Center	1,040,752	-	-	1,040,752	846,215
Emergency Needs	869,602	-	-	869,602	726,476
Celebration of Giving	438,195	-	-	438,195	447,615
County Program Services	237,308	-	-	237,308	869,439
	2,585,857	-	-	2,585,857	2,889,745
Outside Services					
Office Rent	49,434	44,023	1,080	94,537	97,527
Promotion	55,702	1,718	8,410	65,830	92,966
Administration	4,503	33,746	7,025	45,274	15,526
Depreciation	16,736	14,585	-	31,321	35,064
Insurance	15,167	5,284	934	21,385	16,616
Professional Fees	9,667	10,878	374	20,919	21,105
Printing and Postage	14,636	4,763	842	20,241	22,506
Employee Expenses	12,164	1,836	324	14,324	21,524
Telephone	5,450	6,554	1,177	13,181	14,697
Office Supplies	1,420	5,621	1,012	8,053	11,163
Repairs and Maintenance	1,318	2,056	371	3,745	3,709
	331,772	135,190	56,713	523,675	452,523
Total 2017 Expenses	\$ 3,594,090	\$ 384,193	\$ 121,247	\$ 4,099,530	
Total 2016 Expenses	\$ 3,944,376	\$ 368,281	\$ 97,727		\$ 4,410,384

See Accompanying Notes to Financial Statements.

CHILDREN'S FUND, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OTHER MATTERS

Children's Fund, Inc. is a nonprofit corporation organized in California in 1986. The Organization is a public-private partnership created for the purpose of providing services and products to vulnerable and high-risk children in San Bernardino County. The Organization's principal sources of revenue are from private contributions, fundraising events, and governmental agencies that provide assistance to high-risk children. Community services provided by the Organization include several key programs:

Child Services assist at-risk children with food, shelter, clothing, medical care and educational needs through several methods, including the County Emergency Needs program and subgrants and projects with other organizations that work with vulnerable and high-risk children in San Bernardino County.

The Children's Assessment Center is a collaborative partnership with the County of San Bernardino and Loma Linda University Children's Hospital to provide specialized response to child victims of sexual and physical abuse in San Bernardino County. Children's Fund works closely with the Assessment Center to identify and secure funding for these critical services.

The Celebration of Giving is an annual campaign to distribute toys to underprivileged children in San Bernardino County. Toys are donated to the Organization or are purchased with contribution revenues.

The Scholarship Endowment Program sets up endowments with California State University San Bernardino, California Polytechnic University Pomona, Chaffey College, and other regional community colleges to provide annual college scholarships to underprivileged and high-risk children. As of the reporting date, \$602,000 has been transferred into endowments or provided in scholarships.

The financial statements include the activity of two auxiliary organizations that conduct fund-raising activities on behalf of Children's Fund. Those activities are included in fund-raising event revenue and direct event cost.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect financial statement amounts at the reporting date and during the reporting period. Actual results could differ from those estimates.

Prior Year Information

The financial statements include certain summarized comparative information from the prior year. This information does not include sufficient detail to be in conformity with GAAP. Such information should be read together with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was extracted. Certain amounts in the prior year financial statements have been reclassified for comparison purposes to conform to the current year presentation.

Valuation of Accounts and Pledges Receivable

Accounts and pledges receivable described in Note 7 and are considered by management to be fully collectable.

CHILDREN'S FUND, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all temporary cash investments with maturities of three months or less to be cash equivalents. Certificates of deposit 2016 were segregated from cash in the financial statements because their maturity dates exceeded three months.

Accounting for Contributions

GAAP requires that information about financial position and activities be reported in three net asset classes: unrestricted, temporarily restricted, and permanently restricted. Unrestricted contributions are recognized when received. Contributions restricted by the donors are increases in temporarily or permanently restricted net assets, depending on the nature of the donor-imposed restriction. When temporary restrictions are satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the activity statement as net assets released from restrictions.

Fair Value Measurements

GAAP provides guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs – estimates using the best information available when there is little or no market

The Organization is required to measure in-kind contributions and investments at fair value. The technique used to measure fair values is described in Note 5 for in-kind contributions and Note 9 for investments.

Functional Expense Reporting

The costs of activities have been summarized on a functional basis in these financial statements. Costs have been allocated between programs and supporting services as they relate to those functions.

Program Inventory

Program inventory consists of gift cards and goods purchased from local retailers for Child Services programs, as well as goods donated for sale. Inventory is reported at cost or donated value.

Donated Services

Many individuals have donated significant time and services to advance the Organization's programs and objectives. These services have not been recorded in the financial statements because no objective basis is available to measure the value of such services.

Property and Equipment and Depreciation

Property and equipment are reported at cost or donated value and are depreciated by the straight-line method over estimated useful lives of five years. The Organization's policy is to capitalize additions of \$1,000.

CHILDREN'S FUND, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Since the Organization is exempt from federal and state income tax liability, no provision is made for current or deferred income taxes. The Organization uses the same accounting methods for tax and financial reporting.

Subsequent Events

Management has evaluated subsequent events through November 27, 2017, the date when the financial statements were available to be issued.

NOTE 3 – TEMPORARY RESTRICTIONS

Temporarily restricted net assets include contributions restricted for the Children's Assessment Center from Loma Linda University Medical Center (\$541,905) and the San Manuel Band of Mission Indians (\$700,000).

NOTE 4 – CONTRIBUTIONS

The Organization received significant contributions, both in cash and by pledge, from the following donors:

San Manuel Band of Mission Indians	\$ 1,000,000	\$ -
Loma Linda University Medical Center	400,000	400,000
Fontana Foundation of Hope	100,000	100,000
Other Donors	<u>407,643</u>	<u>460,159</u>
Total In-Kind Contributions	<u>\$ 1,907,643</u>	<u>\$ 960,159</u>

NOTE 5 – IN-KIND CONTRIBUTIONS

The Organization receives significant in-kind contributions to advance its mission, which include products, services, and facilities. These donations are recorded when there is an objective basis to measure the value and when they would be purchased if not donated. The fair values of these in-kind contributions have been measured on a nonrecurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs). In-Kind contributions include the following items:

	<u>2017</u>	<u>2016</u>
Celebration of Giving – Toys	\$ 456,583	\$ 414,045
Golf Event - Supplies	<u>74,240</u>	<u>64,885</u>
In-Kind Contributions Included in Event Revenues	530,823	478,930
Child Services – Supplies	<u>462,432</u>	<u>753,746</u>
Total In-Kind Contributions	<u>\$ 993,255</u>	<u>\$ 1,232,676</u>

CHILDREN'S FUND, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – RELATED PARTY TRANSACTIONS

The Organization has a conflict-of-interest policy that governs transactions with related parties. Management may engage in such transactions when they are at least equivalent to similar transactions with an unrelated party. During the reporting periods, the Organization engaged in immaterial transactions with companies related to Board members and conducted those transactions in accordance with this policy.

NOTE 7 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable consist of the following amounts:

	<u>2017</u>	<u>2016</u>
First 5 Contracts	\$ 297,652	\$ 217,234
Children and Family Services Contract	94,101	196,690
Other Receivables	<u>17,563</u>	<u>12,551</u>
	<u>\$ 409,316</u>	<u>\$ 426,475</u>

Pledges receivable consist of the following amounts:

	<u>2017</u>	<u>2016</u>
San Manuel Band of Mission Indians Pledge	\$ 700,000	\$ -
Loma Linda University Children's Hospital Pledge	400,000	400,000
Golf Event Pledges	62,213	75,736
A. Gary Anderson Pledge	-	250,000
Amazon Pledge	<u>-</u>	<u>9,293</u>
	<u>\$ 1,162,213</u>	<u>\$ 735,029</u>

All pledges are due within one year, except San Manuel, of which \$300,000 is current and due in 2017, and \$400,000 is non-current and due in 2018.

NOTE 8 – OPERATING LEASES

The Organization occupies office space under the terms of an amended seven-year non-cancellable operating lease that expires in September 2021. Rent expense for the year ended June 30, 2017 was \$91,298. Future base rent amounts may be adjusted for tenant performance on other terms of the lease agreement.

Future minimum rental obligations under this lease are as follows:

June 30,

2018	\$ 94,727
2019	97,568
2020	100,495
2021	<u>103,510</u>
	<u>\$ 488,267</u>

CHILDREN'S FUND, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – QUASI-ENDOWMENT

In accordance with California law (SPMIFA), the Organization has established amounts intended by the Board to be held as an endowment to be used only for Board approved purposes. Since this endowment was not created by donors, it is considered to be a “quasi-endowment” and classified as unrestricted. Unappropriated earnings on endowment assets are also classified as unrestricted net assets. The Organization classifies as quasi-endowment (1) the original value approved for quasi-endowment, (2) the original value of subsequent gifts to quasi-endowment, and (3) accumulations to the quasi-endowment made in accordance with the direction of the board of directors at the time the accumulation is added to the fund. The remaining portion of the quasi-endowment fund that is not classified as such is classified as board restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. The Organization is currently reinvesting earnings into the endowment to promote long-term growth.

From time to time, the fair values of endowment assets may, due to unfavorable market fluctuations, fall below the level that the Board intended to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, declines of this nature are reported as losses in unrestricted net assets. As values recover, the increases are reported as unrestricted gains.

The Organization has adopted an investment policy and spending guidelines for quasi-endowment assets to preserve the purchasing power of the quasi-endowment assets. Under these policies, endowment assets are invested to produce a return that is expected to meet or exceed the rate of inflation as measured by the Consumer Price Index. Actual results during any period may vary from these expectations. The Organization relies on a total return strategy which allows the earnings objective to be achieved through both capital appreciation and current yield. This strategy involves a diversified asset allocation that provides a balance among equity investments. The value of the quasi-endowment was as follows:

Beginning Balance 6/30/16	\$ 209,096
Dividends	7,862
Realized Gain	1,105
Unrealized Gain/Loss	<u>8,749</u>
Ending Balance 6/30/17	<u>\$ 226,812</u>

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

	<u>Donated Cost/Value</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
<u>June 30, 2017</u>			
Bond Funds	\$ 123,225	\$ 122,490	\$ (735)
Large Cap Funds	69,695	79,250	9,565
Mid Cap Funds	<u>23,532</u>	<u>25,072</u>	<u>1,540</u>
	<u>\$ 216,452</u>	<u>\$ 226,812</u>	<u>\$ 10,360</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Children's Fund, Inc.
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Children's Fund, Inc. as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kathy & Kathy", is positioned to the right of the date and location text.

November 27, 2017
San Bernardino, California