

A CHILD'S HOPE INTERNATIONAL, INC.

FINANCIAL REPORT

DECEMBER 31, 2016 AND 2015



**FLAGEL HUBER FLAGEL**  
Certified Public Accountants | Business Advisors

A CHILD'S HOPE INTERNATIONAL, INC.

TABLE OF CONTENTS

DECEMBER 31, 2016 AND 2015

Independent Auditor's Report	Page 1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 15



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
A Child's Hope International, Inc.

We have audited the accompanying financial statements of A Child's Hope International, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 A Child's Hope International, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Flagel Huber Flagel*

Certified Public Accountants

Dayton, Ohio

June 13, 2017

A CHILD'S HOPE INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
ASSETS	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 941,468	\$ 865,699
Accounts receivable	0	5,000
Investments	1,724	2,142
Inventory	15,674	15,752
<b>TOTAL CURRENT ASSETS</b>	<u>958,866</u>	<u>888,593</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>68,237</u>	<u>62,250</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,027,103</u>	<u>\$ 950,843</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 17,285	\$ 0
Accrued expenses	0	9,545
<b>TOTAL CURRENT LIABILITIES</b>	<u>17,285</u>	<u>9,545</u>
<b>NET ASSETS</b>		
Unrestricted	856,878	920,389
Temporarily restricted	152,940	20,909
<b>TOTAL NET ASSETS</b>	<u>1,009,818</u>	<u>941,298</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,027,103</u>	<u>\$ 950,843</u>

The accompanying notes are an integral part of these statements.

A CHILD'S HOPE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 718,645	\$ 134,031	\$ 852,676
In-kind contributions	343,901	0	343,901
Grants	71,417	0	71,417
Investment income	1,846	0	1,846
Special events, net	5,711	0	5,711
Merchandise and book sales	36,165	0	36,165
Royalties	44	0	44
Net assets released from restriction	2,000	(2,000)	0
<b>TOTAL SUPPORT AND REVENUES</b>	<u>1,179,729</u>	<u>132,031</u>	<u>1,311,760</u>
<b>EXPENSES</b>			
Program services	1,120,972	0	1,120,972
Management and general	76,772	0	76,772
Fundraising	45,496	0	45,496
<b>TOTAL EXPENSES</b>	<u>1,243,240</u>	<u>0</u>	<u>1,243,240</u>
<b>CHANGE IN NET ASSETS</b>	(63,511)	132,031	68,520
<b>NET ASSETS - beginning of year</b>	<u>920,389</u>	<u>20,909</u>	<u>941,298</u>
<b>NET ASSETS - end of year</b>	<u>\$ 856,878</u>	<u>\$ 152,940</u>	<u>\$ 1,009,818</u>

The accompanying notes are an integral part of these statements.

A CHILD'S HOPE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 724,827	\$ 20,909	\$ 745,736
In-kind contributions	278,305	0	278,305
Grants	162,069	0	162,069
Investment loss	(55)	0	(55)
Special events, net	(2,213)	0	(2,213)
Merchandise and book sales	26,742	0	26,742
Royalties	164	0	164
Net assets released from restriction	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>1,189,839</u>	<u>20,909</u>	<u>1,210,748</u>
<b>EXPENSES</b>			
Program services	878,501	0	878,501
Management and general	82,057	0	82,057
Fundraising	<u>42,961</u>	<u>0</u>	<u>42,961</u>
<b>TOTAL EXPENSES</b>	<u>1,003,519</u>	<u>0</u>	<u>1,003,519</u>
<b>CHANGE IN NET ASSETS</b>	186,320	20,909	207,229
<b>NET ASSETS - beginning of year</b>	<u>734,069</u>	<u>0</u>	<u>734,069</u>
<b>NET ASSETS - end of year</b>	<u>\$ 920,389</u>	<u>\$ 20,909</u>	<u>\$ 941,298</u>

The accompanying notes are an integral part of these statements.

A CHILD'S HOPE INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Humanitarian relief production \$	632,386	\$ 0	\$ 0	\$ 632,386
Compensation and benefits	204,923	25,240	22,240	252,403
Payroll taxes	19,670	2,235	447	22,352
Payroll services	1,369	152	0	1,521
Occupancy	137,926	11,992	0	149,918
Professional services	0	10,000	0	10,000
Marketing	33,809	0	22,809	56,618
Office expenses	8,366	9,524	0	17,890
Equipment and fixtures	4,815	239	0	5,054
Travel	7,951	0	0	7,951
Depreciation	11,943	1,327	0	13,270
Insurance	5,788	643	0	6,431
Supplies	2,490	277	0	2,767
Bank fees	0	12,108	0	12,108
Membership and subscription	2,347	1,147	0	3,494
Meals and entertainment	92	824	0	916
Grants paid	4,500	0	0	4,500
Contract labor	11,020	1,064	0	12,084
Volunteer management	5,087	0	0	5,087
Merchandise	26,490	0	0	26,490
TOTAL EXPENSES	<u>\$ 1,120,972</u>	<u>\$ 76,772</u>	<u>\$ 45,496</u>	<u>\$ 1,243,240</u>

The accompanying notes are an integral part of these statements.



A CHILD'S HOPE INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Humanitarian relief production \$	407,413	\$ 0	\$ 0	\$ 407,413
Compensation and benefits	222,515	27,815	27,815	278,145
Payroll taxes	18,874	2,359	2,359	23,592
Payroll services	1,217	152	152	1,521
Occupancy	137,596	15,289	0	152,885
Professional services	0	10,000	0	10,000
Marketing	12,635	0	12,635	25,270
Office expenses	7,075	16,507	0	23,582
Equipment and fixtures	3,953	268	0	4,221
Travel	7,306	0	0	7,306
Depreciation	9,166	1,019	0	10,185
Insurance	2,170	241	0	2,411
Supplies	1,054	117	0	1,171
Bank fees	0	6,765	0	6,765
Membership and subscription	975	975	0	1,950
Grants paid	22,500	0	0	22,500
Contract labor	7,948	550	0	8,498
Volunteer management	4,254	0	0	4,254
Merchandise	8,081	0	0	8,081
Book costs	3,769	0	0	3,769
TOTAL EXPENSES	<u>\$ 878,501</u>	<u>\$ 82,057</u>	<u>\$ 42,961</u>	<u>\$ 1,003,519</u>

The accompanying notes are an integral part of these statements.

A CHILD'S HOPE INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	2016	2015
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 68,520	\$ 207,229
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,270	10,185
Net realized and unrealized losses (gains) on investments	(1,846)	443
Donated property and equipment	(10,775)	(17,040)
Donated investment securities	(15,754)	(12,047)
Increase (decrease) in cash due to changes in:		
Accounts receivable	5,000	(5,000)
Inventory	78	179
Accounts payable	17,285	0
Accrued expenses	(9,545)	3,539
TOTAL ADJUSTMENTS	<u>(2,287)</u>	<u>(19,741)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>66,233</u>	 <u>187,488</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(8,482)	(8,997)
Proceeds from sale of investments	18,018	12,149
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>9,536</u>	 <u>3,152</u>
 CHANGE IN CASH	 75,769	 190,640
CASH - beginning of year	<u>865,699</u>	<u>675,059</u>
CASH - end of year	<u>\$ 941,468</u>	<u>\$ 865,699</u>
 <b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Donated property and equipment	\$ 10,775	\$ 17,040
Donated investment securities	15,754	12,047

The accompanying notes are an integral part of these statements.

A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

1. ORGANIZATION

A Child's Hope International, Inc. (the Organization) is a not-for-profit organization incorporated in Ohio in 2008. The Organization is a partner-based organization dedicated to bringing the church and community together to serve the needs of orphans worldwide. The Organization was founded on the principle that because children matter to God they should matter to us and was formed to give glory to the Father by caring for the least of these (Matthew 25:31-46). The Organization is supported primarily through donor contributions.

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 accounting principles generally accepted in the United States of America for not-for-profit organizations.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. A description of each class as it pertains to the Organization is as follows:

Unrestricted net assets represent resources over which the Organization has discretionary control and may be used to carry out operations in accordance with its exempt purposes.

Temporarily restricted net assets represent resources resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets represent resources resulting from contributions or other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization pursuant to those stipulations. The Organization has no permanently restricted net assets; therefore this classification is omitted from the accompanying financial statements.

A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash is defined as all demand deposit accounts, which include checking and savings accounts.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

The Organization carries investments at their fair value on the statements of financial position. Investment return includes interest, dividends, and realized and unrealized gains and losses and is included on the statements of activities as unrestricted, temporarily restricted or permanently restricted depending on the existence and nature of any donor imposed restrictions.

Inventory

Inventory consists of books and is stated at the lower of cost or market determined by the average cost method.

Property and Equipment

Property and equipment is stated at cost when purchased or fair value when received as a donation. The Organization capitalizes purchases of \$500 or more with an expected useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 15 years.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended December 31, 2016 and 2015.

A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Materials and Services

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Functional Expenses

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2016 and 2015 were \$56,618 and \$25,270, respectively.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year's presentation.

A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The financial statements include no provision for income taxes since the Organization is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. However, any income from certain activities not directly related to the Organization's tax exempt purpose may be subject to taxation as unrelated business income.

The Organization determines the recognition of uncertain tax positions, if applicable, that may subject the Organization to unrelated business income tax by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Organization does not have any uncertain tax positions at December 31, 2016 and 2015. The Organization believes it is no longer subject to income tax examinations for tax years prior to 2013.

3. INVESTMENTS

Investments are stated at fair value and consist of the following at December 31:

<u>2016</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Change</u>
Common stock	\$ 1,724	\$ 456	\$ 1,268
	<u>          </u>	<u>          </u>	<u>          </u>
<u>2015</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Change</u>
Common stock	\$ 2,142	\$ 2,178	\$ (36)
	<u>          </u>	<u>          </u>	<u>          </u>

Investment return consists of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 0	\$ 388
Realized and unrealized gains (losses)	1,846	(443)
	<u>\$ 1,846</u>	<u>\$ (55)</u>

A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following, at cost, for the years ended December 31:

	2016	2015	Estimated Life In Years
Leasehold improvements	\$ 33,820	\$ 33,820	15
Vehicles	15,302	8,900	5
Office equipment	56,987	46,612	7
Office furniture	4,624	4,624	7
Computer software	3,396	916	5
	<u>114,129</u>	<u>94,872</u>	
Less: Accumulated depreciation	(45,892)	(32,622)	
	<u>\$ 68,237</u>	<u>\$ 62,250</u>	

5. NET ASSETS

Temporarily restricted net assets consist of cash that is restricted for the following purposes at December 31:

	2016	2015
Fresh water wells	\$ 14,891	\$ 14,066
Foster care scholarship fund	5,550	5,550
Adoption fund	0	1,293
CWFO	5,394	0
Shipping	41,901	0
Designated relief	79,210	0
Hope boxes	5,994	0
	<u>\$ 152,940</u>	<u>\$ 20,909</u>

6. IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following at December 31:

	2016	2015
Investments	\$ 15,754	\$ 12,047
Property and equipment	10,775	17,040
Occupancy	73,356	73,356
Humanitarian relief production	204,828	147,394
Contract labor	11,021	9,980
Supplies	2,497	4,852
Office expense	25,670	10,046
Other inventory	0	3,590
	<u>\$ 343,901</u>	<u>\$ 278,305</u>

A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

6. IN-KIND CONTRIBUTIONS (Continued)

The occupancy amounts disclosed above represent in-kind contributions of office and warehouse space that was provided to the Organization at below market lease rates (as determined by the fair value of similar space and communicated by the property's lessor).

7. OPERATING LEASE

The Organization leases office and warehouse space under a lease agreement expiring in April 2021. Rent expense was approximately \$60,000 for the years ended December 31, 2016 and 2015. See Note 6 for further details regarding in-kind contributions related to rent.

Future minimum lease payments are as follows for each year ending December 31:

<u>Year</u>	<u>Amount</u>
2017	\$ 60,000
2018	60,000
2019	60,000
2020	60,000
2021	20,000
	<u>\$ 260,000</u>

8. FAIR VALUE MEASUREMENTS

The Organization applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2016 and 2015.



A CHILD'S HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

8. FAIR VALUE MEASUREMENTS (Continued)

The Organization has determined that the only material financial assets or liabilities that are measured at fair value on a recurring basis and categorized using the fair value hierarchy are investments. For such investments, fair value measurement is based upon quoted prices. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. All investments at December 31, 2016 and 2015 are measured at Level 1 inputs.

9. SUBSEQUENT EVENTS

Management evaluated the activity of the Organization through June 13, 2017 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



## **BUILDING AND PRESERVING WEALTH SINCE 1933**

In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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