

A Child's Hope International, Inc.

Financial Statements

December 31, 2017 and 2016



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

A Child's Hope International, Inc.

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December 31, 2017 and 2016

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Certified Public Accountants | Business Advisors

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, 2017 and 2016, 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, 2017 and 2016, 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 15, 2018

A Childs Hope International, Inc.
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,019,499	\$ 941,468
Contributions receivable	30,268	0
Investments	528	1,724
Inventory	12,136	15,674
Total Current Assets	<u>1,062,431</u>	<u>958,866</u>
Property, Plant, and Equipment, Net	<u>61,107</u>	<u>68,237</u>
Total Assets	<u>\$ 1,123,538</u>	<u>\$ 1,027,103</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 28,999	\$ 17,285
Accrued expenses	11,938	0
Total Current Liabilities	<u>40,937</u>	<u>17,285</u>
Net Assets		
Unrestricted	1,028,917	856,878
Temporarily restricted	53,684	152,940
Total Net Assets	<u>1,082,601</u>	<u>1,009,818</u>
Total Liabilities and Net Assets	<u>\$ 1,123,538</u>	<u>\$ 1,027,103</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues			
Contributions	\$ 757,748	\$ 252,429	\$ 1,010,177
In-kind contributions	1,016,577	0	1,016,577
Grants	77,500	0	77,500
Interest income	2,467	0	2,467
Merchandise and book sales	32,667	0	32,667
Royalties	44	0	44
Net assets released from restriction	351,685	(351,685)	0
Total Support and Revenues	<u>2,238,688</u>	<u>(99,256)</u>	<u>2,139,432</u>
Expenses			
Program services	1,922,649	0	1,922,649
Management and general	104,016	0	104,016
Fundraising	39,984	0	39,984
Total Expenses	<u>2,066,649</u>	<u>0</u>	<u>2,066,649</u>
Change in Net Assets	172,039	(99,256)	72,783
Net Assets - beginning of year	<u>856,878</u>	<u>152,940</u>	<u>1,009,818</u>
Net Assets - end of year	<u>\$ 1,028,917</u>	<u>\$ 53,684</u>	<u>\$ 1,082,601</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>
Support and Revenues			
Contributions	\$ 719,913	\$ 134,031	\$ 853,944
In-kind contributions	343,901	0	343,901
Grants	71,417	0	71,417
Investment income	578	0	578
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
Total Support and Revenues	<u>1,179,729</u>	<u>132,031</u>	<u>1,311,760</u>
Expenses			
Program services	1,120,972	0	1,120,972
Management and general	76,772	0	76,772
Fundraising	45,496	0	45,496
Total Expenses	<u>1,243,240</u>	<u>0</u>	<u>1,243,240</u>
Change in Net Assets	(63,511)	132,031	68,520
Net Assets - beginning of year	<u>920,389</u>	<u>20,909</u>	<u>941,298</u>
Net Assets - end of year	<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 Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Humanitarian relief production	\$ 1,470,904	\$ 0	\$ 0	\$ 1,470,904
Compensation and benefits	208,077	26,010	26,010	260,097
Payroll taxes	15,347	1,919	1,919	19,185
Payroll services	4,715	524	0	5,239
Occupancy	139,301	15,478	0	154,779
Professional services	0	10,224	0	10,224
Marketing	12,055	0	12,055	24,110
Office expenses	7,994	18,651	0	26,645
Equipment and fixtures	3,848	0	0	3,848
Travel	6	0	0	6
Depreciation	15,154	1,684	0	16,838
Insurance	3,382	376	0	3,758
Supplies	1,705	189	0	1,894
Bank fees	0	7,941	0	7,941
Membership and subscription	4,850	4,850	0	9,700
Meals and entertainment	5	40	0	45
Grants paid	5,000	0	0	5,000
Contract labor	8,800	16,130	0	24,930
Volunteer management	6,870	0	0	6,870
Merchandise	14,636	0	0	14,636
Total Expenses	\$ 1,922,649	\$ 104,016	\$ 39,984	\$ 2,066,649

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	\$ 1,120,972	\$ 76,772	\$ 45,496	\$ 1,243,240

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 72,783	\$ 68,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,838	13,270
Net realized gains on investments	0	(578)
Donated property and equipment	0	(10,775)
Donated investment securities	(3,129)	(15,754)
Increase (decrease) in cash due to changes in:		
Contributions receivable	(30,268)	5,000
Inventory	3,538	78
Accounts payable	11,714	17,285
Accrued expenses	11,938	(9,545)
Net Cash Provided by Operating Activities	<u>83,414</u>	<u>67,501</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(9,708)	(8,482)
Proceeds from sale of investments	4,325	16,750
Net Cash Provided by (Used in) Investing Activities	<u>(5,383)</u>	<u>8,268</u>
Change in Cash	78,031	75,769
Cash and Cash Equivalents - beginning of year	<u>941,468</u>	<u>865,699</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,019,499</u>	<u>\$ 941,468</u>
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Donated property and equipment	\$ 0	\$ 10,775
Donated investment securities	3,129	15,754

The accompanying notes are an integral part of these statements.

A Child's Hope International, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

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.

Basis of Presentation

The Organization reports 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.

Unrestricted net assets are resources that are available to support the Organization's operations. These include resources designated by the Board of Directors for special purposes.

Temporarily restricted net assets are 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 donations that have been restricted by donors and are to be maintained by the Organization in perpetuity. The Organization has no permanently restricted net assets; therefore, this classification is omitted from the accompanying financial statements.

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 and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, which include checking and savings accounts, as well as certificates of deposit.

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.

A Child's Hope International, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (Continued)

Contributions Receivable

Contributions receivable represent unconditional promises to give that are expected to be collected in the future. All receivables are expected to be collected within one year and therefore, no discount has been recorded. The Organization utilizes the direct write off method to account for bad debts. Accordingly, amounts are written off in the period they are determined uncollectible. There was no bad debt expense with respect to receivables for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016.

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 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.

A Child's Hope International, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (Continued)

Functional Expenses

The costs of providing various program services and supporting activities have been reported 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, 2017 and 2016 were \$20,698 and \$56,618, respectively.

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, 2017 and 2016. The Organization believes it is no longer subject to income tax examinations for tax years prior to 2014.

Reclassifications

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

3. Investments

The Organization receives donations of investments which are typically sold within a few months of receipt. No other investments are held by the client, therefore the return on investments is usually minimal.

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

<u>2017</u>	<u>Fair Value</u>	<u>Basis</u>	<u>Change</u>
Common stock	<u>\$ 528</u>	<u>\$ 528</u>	<u>\$ 0</u>
<u>2016</u>	<u>Fair Value</u>	<u>Basis</u>	<u>Change</u>
Common stock	<u>\$ 1,724</u>	<u>\$ 1,724</u>	<u>\$ 0</u>

Investment return was \$0 for the year ended December 31, 2017. Investment return consisted of realized gains in the amount of \$578 for the year ended December 31, 2016.

A Child's Hope International, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

4. Property and Equipment

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

	<u>2017</u>	<u>2016</u>	Estimated Life <u>In Years</u>
Leasehold improvements	\$ 34,485	\$ 33,820	15
Vehicles	15,302	15,302	5
Office equipment	59,820	56,987	7
Office furniture	10,204	4,624	7
Computer software	4,026	3,396	5
	<u>123,837</u>	<u>94,872</u>	
Less: Accumulated depreciation	<u>(62,730)</u>	<u>(45,892)</u>	
	<u>\$ 61,107</u>	<u>\$ 68,237</u>	

Depreciation expense for the years ending December 31, 2017 and 2016, is \$16,838 and \$13,270, respectively.

5. Net Assets

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

	<u>2017</u>	<u>2016</u>
Fresh water wells	\$ 17,566	\$ 14,891
Clean water for orphans	0	5,394
Shipping	0	41,901
Designated relief	30,503	79,210
Hope boxes	0	5,994
Foster care scholarship fund	5,615	5,550
	<u>\$ 53,684</u>	<u>\$ 152,940</u>

6. In-Kind Contributions

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

	<u>2017</u>	<u>2016</u>
Investments	\$ 3,129	\$ 15,754
Property and equipment	0	10,775
Occupancy	73,356	73,356
Humanitarian relief production	927,576	204,828
Contract labor	8,800	11,021
Supplies	3,719	2,497
Office expense	0	25,670
	<u>\$ 1,016,580</u>	<u>\$ 343,901</u>

A Child's Hope International, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

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 \$60,000 for the years ended December 31, 2017 and 2016. 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>
2018	\$ 60,000
2019	60,000
2020	60,000
2021	20,000
	<u>\$ 200,000</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 2017 and 2016.

A Child's Hope International, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016 are measured at Level 1 inputs.

9. Subsequent Events

Management evaluated the activity of the Organization through June 15, 2018 (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.



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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