

A Child's Hope International

**Financial Statements
December 31, 2020 and
Independent Auditors' Report**

A CHILD'S HOPE INTERNATIONAL
December 31, 2020

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Independent Auditors' Report

Board of Directors
A Child's Hope International
Cincinnati, Ohio

We have audited the accompanying financial statements of A Child's Hope International (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Basis for Qualified Opinion

We did not observe the taking of the physical inventories on December 31, 2019 (stated at \$414,681), since that date was prior to the time we were initially engaged as auditors for the Organization. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of A Child's Hope International as of December 31, 2020, 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.

Correction of Error

As described in Note 8 to the financial statements, the beginning of year net assets were restated to recognize inventory on-hand as of December 31, 2019. Our opinion has been modified with respect to this matter as we were not able to observe the taking of the physical inventories on December 31, 2019 as described in the Basis for Qualified Opinion paragraph.

Barnes, Dennig & Co., Ltd.

January 19, 2022
Cincinnati, Ohio

A CHILD'S HOPE INTERNATIONAL

Statement of Financial Position December 31, 2020

Assets

Cash and cash equivalents	\$	928,646
Prepaid expenses and other		59,764
Inventory		307,754
Property and equipment, net		<u>357,915</u>

Total assets	\$	<u><u>1,654,079</u></u>
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Liabilities and Net Assets**Liabilities**

Accounts payable	\$	126,913
Accrued payroll and other		<u>7,464</u>

Total liabilities		<u>134,377</u>
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Net Assets

Without donor restrictions		1,260,250
With donor restrictions		<u>259,452</u>

Total net assets		<u>1,519,702</u>
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Total liabilities and net assets	\$	<u><u>1,654,079</u></u>
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See accompanying notes to financial statements

A CHILD'S HOPE INTERNATIONAL

Statement of Activities Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues			
Contributions	\$ 439,068	\$ 824,303	\$ 1,263,371
In-kind contributions	593,332	-	593,332
Grants	276,397	-	276,397
Interest and other income	23,619	-	23,619
Merchandise and book sales	27,587	-	27,587
Redetermination of donor restrictions	(183,671)	183,671	-
Net assets released from restriction	796,390	(796,390)	-
	<u>1,972,722</u>	<u>211,584</u>	<u>2,184,306</u>
Expenses			
Program services	2,421,572	-	2,421,572
Management and general	137,860	-	137,860
Fundraising	29,092	-	29,092
	<u>2,588,524</u>	<u>-</u>	<u>2,588,524</u>
Change in net assets	<u>(615,802)</u>	<u>211,584</u>	<u>(404,218)</u>
Net assets, beginning of year, as originally stated	1,461,371	47,868	1,509,239
Prior period restatement	<u>414,681</u>	<u>-</u>	<u>414,681</u>
Net assets, beginning of year, as restated	<u>1,876,052</u>	<u>47,868</u>	<u>1,923,920</u>
Net assets, end of year	<u>\$ 1,260,250</u>	<u>\$ 259,452</u>	<u>\$ 1,519,702</u>

See accompanying notes to financial statements

A CHILD'S HOPE INTERNATIONAL

Statement of Functional Expenses Year Ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Humanitarian relief production	\$ 1,877,599	\$ -	\$ -	\$ 1,877,599
Compensation and benefits	248,470	65,387	13,077	326,934
Payroll taxes	85,246	22,433	4,487	112,166
Occupancy	108,059	8,312	2,375	118,746
Professional services	33,297	31,056	111	64,464
Marketing and awareness	8,271	-	8,272	16,543
Supplies and other	25,606	7,978	-	33,584
Depreciation	35,024	2,694	770	38,488
	<u>\$ 2,421,572</u>	<u>\$ 137,860</u>	<u>\$ 29,092</u>	<u>\$ 2,588,524</u>

See accompanying notes to financial statements

A CHILD'S HOPE INTERNATIONAL

Statement of Cash Flows Year Ended December 31, 2020

Cash flows from operating activities	
Change in net assets	\$ (404,218)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	38,488
Changes in:	
Prepaid expenses and other assets	60,473
Inventory	118,510
Accounts payable	51,245
Accrued payroll and other	<u>(14,073)</u>
Net cash used in operating activities	(149,575)
Cash flows from investing activities	
Purchase of property and equipment	<u>(4,835)</u>
Change in cash and cash equivalents	(154,410)
Cash and cash equivalents, beginning of year	<u>1,083,056</u>
Cash and cash equivalents, end of year	<u><u>\$ 928,646</u></u>

See accompanying notes to financial statements

A CHILD'S HOPE INTERNATIONAL

Notes to Financial Statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Principles of Consolidation

A Child's Hope International (the Organization) is a not-for-profit organization incorporated in the State of Ohio. The Organization is a partner-based charity dedicated to motivating and mobilizing the church and community to care for the orphans and vulnerable children worldwide through adoption, foster care, orphan care, and humanitarian relief. 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.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net asset with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts, which at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Property and Equipment

Property and equipment are recorded at cost or fair value at the time of the gift in the case of donated items. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets. Maintenance and repairs are expensed as incurred while significant improvements are capitalized.

GAAP requires the Organization to assess the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, management believes no impairments existed at December 31, 2020.

A CHILD'S HOPE INTERNATIONAL

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as net assets with donor restrictions and then released from restriction.

It is the Organization's policy to imply a time restriction based on the assets' estimated useful lives on donations of property that are not restricted as to their use by the donor. Accordingly, those donations are recorded as support increasing net assets with donor restrictions. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions each year in the amount of the donated property and equipment's depreciation expense.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenues when the conditions are substantially met and the gift becomes unconditional.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Ohio law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Form 990 is subject to review and examination by federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the consolidated financial statements.

Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional classification basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Such allocations are determined by management on an equitable basis. The most significant allocations were salaries and related expenses, which were allocated based on time and effort, and occupancy and depreciation, which were allocated based on square footage.

A CHILD'S HOPE INTERNATIONAL

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Event Evaluation

Subsequent events have been evaluated through January 19, 2022 which is the date the consolidated financial statements were available to be issued.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for B2B's year ended December 31, 2021. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020, comprise the following:

Cash and cash equivalents	\$ 928,646
Less: donor-restricted net assets	<u>(259,452)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 669,194</u>

The Organization is substantially supported by contributions, which may contain certain donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Consequently, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management policy it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

It is the policy of the Organization to regularly review and assess the need for funds to meet operating obligations and to ensure the availability of cash or collateral to fulfill those requirements.

A CHILD'S HOPE INTERNATIONAL

Notes to Financial Statements (Continued)

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2020 consisted of the following:

Leasehold improvements	\$	388,146
Vehicles		103,758
Office equipment and furniture		77,445
Less accumulated depreciation		<u>(211,434)</u>
	\$	<u>357,915</u>

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2020, net assets with donor restrictions were available for the following purposes or periods:

Factory expansion	\$	159,321
Humanitarian relief		88,469
Orphan programs		7,242
Foster care programs		2,510
Adoption programs		<u>1,910</u>
	\$	<u>259,452</u>

The following net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the other events specified by donors:

Humanitarian relief	\$	776,845
Orphan programs		12,083
Factory expansion		<u>7,462</u>
	\$	<u>796,390</u>

NOTE 5 OPERATING LEASES

The Organization leases office and warehouse space under a non-cancellable lease agreement that expired on May 31, 2021 and was renewed on a month-to-month basis. Rent expense for the year ended December 31, 2020 was \$93,400. Future minimum lease payments as of December 31, 2020 were \$46,700 for 2021.

A CHILD'S HOPE INTERNATIONAL

Notes to Financial Statements (Continued)

NOTE 6 PAYCHECK PROTECTION PROGRAM (PPP) GRANT

On May 5, 2020, the Organization entered into a term note pursuant to the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) Paycheck Protection Program (the Program) for \$86,100. All or a portion of the note may be forgiven in accordance with the Program requirements. Interest on the outstanding principal balance will accrue at a fixed rate of 1.00%, but neither principal or interest are due and payable during the initial 6-month deferral period after issuance. After the initial 6-month deferral period expires, the outstanding principal balance that is not forgiven under the Program will convert to an amortizing loan payable in 18 equal installments of principal. On January 22, 2021, the Organization received notification from the bank that the loan was fully forgiven and used in accordance with the Program requirements. Accordingly, the Organization has elected to apply the conditional contribution guidance pursuant to ASC 958-605 to determine the derecognition of the liability. In accordance with this guidance, the derecognition threshold for the liability is when the conditions of the Paycheck Protection Program are "substantially met" and occur on or before the statement of financial position date.

NOTE 7 COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization's operations and financial results will depend on future developments, including the duration and spread of the outbreak within the market in which the Organization operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 8 RESTATEMENT OF BEGINNING NET ASSETS

The 2019 financial statements have been restated to properly recognize inventory on-hand as of December 31, 2019 which was omitted from previous financial reporting. The impact on beginning of year net assets is \$414,681.