

COMMON HOPE

Saint Paul, Minnesota

Consolidated Financial Statements

December 31, 2017 and 2016

COMMON HOPE

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Functional Expenses	5
Notes to Consolidated Financial Statements	6 - 16



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Common Hope and Affiliate
Saint Paul, Minnesota

We have audited the accompanying consolidated financial statements of Common Hope (a nonprofit organization) and its Affiliate, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Common Hope and its Affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Boulay PLLP

Certified Public Accountants

Minneapolis, Minnesota
July 17, 2018

COMMON HOPE

Consolidated Statements of Financial Position

ASSETS	December 31	
	2017	2016
Current Assets		
Cash and cash equivalents		
U.S.	\$ 1,517,058	\$2,636,268
Guatemala	31,149	15,417
Total cash and cash equivalents	<u>1,548,207</u>	<u>2,651,685</u>
Accounts receivable	3,173	7,500
Pledges receivable, current portion	54,914	11,545
Prepaid expenses	53,539	29,420
Investments, short-term	208,687	37,430
Other	23,429	7,146
Total current assets	<u>1,891,949</u>	<u>2,744,726</u>
Investments, net of short-term	2,178,378	524,400
Property, Plant and Equipment, Guatemala		
Land and land improvements	1,759,118	1,759,118
Buildings	4,080,597	4,055,121
Equipment	101,551	117,658
Vehicles	180,710	153,159
	<u>6,121,976</u>	<u>6,085,056</u>
Less: accumulated depreciation	2,880,774	2,741,452
Net property, plant and equipment, Guatemala	<u>3,241,202</u>	<u>3,343,604</u>
Office Equipment, U.S.	66,655	63,474
Less: accumulated depreciation	57,152	54,585
Net office equipment, U.S.	<u>9,503</u>	<u>8,889</u>
Other Long-term Assets		
Pledges receivable, long-term	33,333	18,594
Security deposit	4,047	4,047
Total other long-term assets	<u>37,380</u>	<u>22,641</u>
Total assets	<u>\$ 7,358,412</u>	<u>\$6,644,260</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 155,978	\$ 122,729
Volunteer trip deposits	107,500	90,870
Total current liabilities	<u>263,478</u>	<u>213,599</u>
Long-Term Liability - Severance	804,322	412,803
Net Assets		
Undesignated	5,363,683	5,671,253
Designated	727,908	123,323
Total unrestricted	<u>6,091,591</u>	<u>5,794,576</u>
Temporarily restricted	199,021	223,282
Total net assets	<u>6,290,612</u>	<u>6,017,858</u>
Total liabilities and net assets	<u>\$ 7,358,412</u>	<u>\$6,644,260</u>

Notes to Consolidated Financial Statements are an integral part of this Statement.

COMMON HOPE

Consolidated Statements of Activities

	Year Ended December 31 2017			Year Ended December 31 2016		
	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted
Revenues and Other Support						
Contributions	\$ 4,768,045	\$ 2,505,117	\$ 2,262,928	\$ 4,080,011	\$ 1,673,539	\$ 2,406,472
Interest and dividend income	22,925	22,925	-	4,055	4,055	-
Unrealized and realized gain on investments	79,458	79,458	-	37,518	37,518	-
Program fees	268,244	268,244	-	275,122	275,122	-
Miscellaneous income, net of expenses of \$82,462 in 2017 and \$114,251 in 2016	115,413	115,413	-	186,159	186,159	-
Net assets released from restrictions:	-	-	-	-	-	-
Satisfaction of program restrictions	-	2,287,189	(2,287,189)	-	2,607,960	(2,607,960)
Total revenues and other support	<u>5,254,085</u>	<u>5,278,346</u>	<u>(24,261)</u>	<u>4,582,865</u>	<u>4,784,353</u>	<u>(201,488)</u>
Expenses						
Program operating expenses						
Health care	582,480	582,480	-	590,503	590,503	-
Family & community development	1,122,047	1,122,047	-	1,058,692	1,058,692	-
Housing improvement	155,286	155,286	-	163,630	163,630	-
Education	2,189,814	2,189,814	-	1,900,671	1,900,671	-
General and administrative	609,412	609,412	-	521,667	521,667	-
Fundraising	322,292	322,292	-	264,272	264,272	-
Total expenses	<u>4,981,331</u>	<u>4,981,331</u>	<u>-</u>	<u>4,499,435</u>	<u>4,499,435</u>	<u>-</u>
Change in Net Assets	272,754	297,015	(24,261)	83,430	284,918	(201,488)
Net Assets - Beginning of year	<u>6,017,858</u>	<u>5,794,576</u>	<u>223,282</u>	<u>5,934,428</u>	<u>5,509,658</u>	<u>424,770</u>
Net Assets - End of year	<u><u>\$ 6,290,612</u></u>	<u><u>\$ 6,091,591</u></u>	<u><u>\$ 199,021</u></u>	<u><u>\$ 6,017,858</u></u>	<u><u>\$ 5,794,576</u></u>	<u><u>\$ 223,282</u></u>

Notes to Consolidated Financial Statements are an integral part of this Statement.

COMMON HOPE

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 272,754	\$ 83,430
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	165,020	175,094
Unrealized and realized gain on investments	(79,458)	(37,518)
Loss (gain) on disposal of assets	(615)	8,236
Donated investments	(134,978)	(89,528)
Proceeds from sale of donated stock	127,304	75,546
Change in assets and liabilities:		
Accounts and pledges receivable	(53,781)	(12,429)
Prepaid expenses	(24,119)	20,041
Other current assets	(16,283)	(1,814)
Accounts payable and accrued liabilities	421,768	24,608
Volunteer trip deposits	16,630	20,400
Net cash from operating activities	694,242	266,066
Cash Flows from Investing Activities		
Proceeds from sale of investments	719,005	93,204
Purchase of investments	(2,457,108)	(79,097)
Purchase of property and equipment	(62,817)	(10,721)
Proceeds from sale of property and equipment	3,200	-
Net cash from (used for) investing activities	(1,797,720)	3,386
Net Increase (Decrease) in Cash and Cash Equivalents	(1,103,478)	269,452
Cash and Cash Equivalents - Beginning of Year	2,651,685	2,382,233
Cash and Cash Equivalents - End of Year	\$ 1,548,207	\$ 2,651,685
Supplemental Disclosure of Non-cash Investing Activities		
Fixed asset purchases included in accounts payable	\$ 8,370	\$ 5,370

Notes to Consolidated Financial Statements are an integral part of this Statement.

COMMON HOPE

Consolidated Statements of Functional Expenses

	Year Ended December 31						
	2017						
	Program Operating Expenses					Supporting Services	
	Total	Health Care	Family & Community Development	Housing Improvement	Education	General and Administrative	Fundraising
Specific assistance	\$ 984,632	\$ 172,081	\$ 157,704	\$ 31,135	\$ 623,712	\$ -	\$ -
Salaries, wages, and benefits	2,988,210	318,144	761,151	56,697	1,175,763	437,799	238,656
Supplies and travel	197,024	17,879	56,992	6,114	79,417	17,705	18,917
Services and professional fees	73,092	1,481	2,900	274	6,454	61,452	531
Office and occupancy	491,346	46,814	118,419	10,602	194,965	57,598	62,948
Depreciation	165,020	17,552	13,878	39,317	86,082	7,215	976
Other	82,007	8,529	11,003	11,147	23,421	27,643	264
Total expenses	<u>\$ 4,981,331</u>	<u>\$ 582,480</u>	<u>\$ 1,122,047</u>	<u>\$ 155,286</u>	<u>\$ 2,189,814</u>	<u>\$ 609,412</u>	<u>\$ 322,292</u>

	Year Ended December 31						
	2016						
	Program Operating Expenses					Supporting Services	
	Total	Health Care	Family & Community Development	Housing Improvement	Education	General and Administrative	Fundraising
Specific assistance	\$ 1,116,586	\$ 212,323	\$ 236,818	\$ 30,892	\$ 636,413	\$ 127	\$ 13
Salaries, wages, and benefits	2,450,810	283,751	638,430	62,108	899,653	356,677	210,191
Supplies and travel	195,422	19,584	54,661	8,065	80,593	20,121	12,398
Services and professional fees	60,923	1,193	1,681	255	4,250	53,494	50
Office and occupancy	418,208	45,579	107,049	10,840	180,528	34,905	39,307
Depreciation	175,094	19,450	16,133	39,976	90,625	7,874	1,036
Other	82,392	8,623	3,920	11,494	8,609	48,469	1,277
Total expenses	<u>\$ 4,499,435</u>	<u>\$ 590,503</u>	<u>\$ 1,058,692</u>	<u>\$ 163,630</u>	<u>\$ 1,900,671</u>	<u>\$ 521,667</u>	<u>\$ 264,272</u>

Notes to Consolidated Financial Statements are an integral part of this Statement.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity

Common Hope and its affiliate, Fundación Familias de Esperanza (Fundación), collectively, the "Organization," are nonprofit organizations devoted to aiding the poor of Guatemala living in and around Antigua, the outskirts of Guatemala City, and the village of San Rafael. Common Hope and its affiliate promote hope and opportunity in Guatemala, partnering with children, families, and communities who want to participate in a process of development to improve their lives through education, health care, and housing. The programs presently conducted by Common Hope and its affiliate include the following:

Education - The Organization helped provide pre-primary, primary, secondary, and university education for approximately 3,500 children during 2017 and 2016, paying for tuition and fees, books and supplies, shoes and uniforms. Other programs include: tutoring, summer school, occupational therapy, special education, access to libraries and computer labs, youth groups, and teacher training. The Organization operates a school for pre-primary and primary students at New Hope Village and serves students at six public primary schools through the Partner School Initiative. The Partner School program was designed to improve the quality of education for all students who attend school (Note 4).

Health Care - The Organization's medical staff and volunteers provide preventative and curative care for families in the Antigua clinic. The Organization partners with other clinics to provide health and dental care at San Rafael, San Miguel Milpas Altas, and New Hope. Care provided includes: examinations, lab tests, medications and dentistry. When necessary patients are referred for x-rays and outside lab services, specialists, surgery, or other treatments not available within our clinics. Patients may receive transportation, accompaniment, and cost coverage as needed. Clinic staff provides treatment and education for specific health issues endemic to the area, including diabetes, upper respiratory issues, and hypertension.

Family and Community Development - Through long-term relationships with the Organization's social workers, families are able to identify goals and obstacles to create their own unique development plan. In support of these development plans, the Organization partners with families to provide resources and tools to improve their lives. Programs include: parenting and self-esteem trainings, legal services, emergency relief, and support groups for parents and alcoholism.

Housing Improvement - The Organization constructs new homes, roofs, stoves, and floors as well as installs plumbing and electrical services in existing homes. This work is done in partnership with families who perform community service hours to earn the materials and construction support. The Organization also built and currently operates the infrastructure for New Hope Village, including running water, electricity, and sewer, to help families who have relocated from marginal housing in Guatemala City.

Basis of Presentation

The consolidated financial statements include the accounts of Common Hope, a nonprofit organization incorporated in Minnesota, and its affiliate, a related nonprofit organization incorporated in Guatemala, Central America, under the name of Fundación Familias de Esperanza (Fundación). Fundación is the entity that carries out the mission of Common Hope in Guatemala. All significant intercompany balances and transactions are eliminated in consolidation.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The Organization reports its financial position and activities according to three classes of net assets as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets - net assets that are not subject to donor-imposed stipulations
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

At December 31, 2017 and 2016, the Organization had no permanently restricted net assets.

Accounting Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates include the value of in-kind donations, depreciable lives of property and equipment, the value of the land donated to New Hope Village residents, the Guatemalan severance liabilities, and the allocation of the functional expenses. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency used by Fundación is the U.S. Dollar. As funds are transferred from Common Hope to Fundación, they are converted to Guatemalan Quetzals and expended for the programs in Guatemala.

There are no material translation adjustments or material exchange rate differences in these financial statements. The difference in the exchange rates between the statement of financial position date and the date of the audit report would not materially affect these consolidated financial statements.

Cash and Cash Equivalents

The Organization considers certain money market funds and certificates of deposit with initial maturities of three months or less to be cash equivalents. At times throughout the year, the Organization's cash and cash equivalents deposited in financial institutions in the United States of America may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). Money market funds totaled approximately \$1,384,000 and \$1,468,000 at December 31, 2017 and 2016, respectively. At December 31, 2017 approximately \$1,146,000 of the money market funds were classified within cash and cash equivalents and approximately \$238,000 of money market funds were included in investments due to board designations on the funds as discussed in Note 10. At December 31, 2016, all money market funds were classified within cash and cash equivalents.

Investments

Investments in money market funds and marketable securities are stated at fair market value, based on quoted values. Donated investments are initially recorded at fair market value on the date of donation and thereafter reported in accordance with the Organization's aforementioned investment valuation policy. Realized and unrealized gains and losses on investments are recorded in the consolidated statement of activities. Investment income is generally absent donor restriction and is therefore unrestricted.

Certificates of deposit are recognized at cost plus accrued interest, which approximates fair value, and are included in short-term investments when their original maturity date exceeds three months and their remaining

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

maturity is one year or less. Certificates of deposit with a maturity date greater than one year are included in long-term investments. Certificates of deposit totaled approximately \$1,001,000 and \$28,000 at December 31, 2017 and 2016, respectively.

Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals.

Property, Plant, and Equipment

Property, plant, and equipment, which is primarily located in Guatemala, is stated at cost. Donated property, plant, and equipment is stated at estimated fair value on the date of contribution. Depreciation is recognized over the estimated useful lives of the assets by use of the straight-line and accelerated methods as follows:

Description	Estimated Useful Lives (Years)
Land improvements	5 – 20
Buildings	10 – 40
Equipment	3 – 10
Vehicles	5 – 10

Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized. Common Hope holds title to substantially all property, plant, and equipment located in Guatemala, except the New Hope Village land and land improvements and the vehicles, which are owned by Common Hope's affiliate, Fundación.

On March 15, 2009, the Organization was successful in organizing an association in New Hope Village as a separate legal entity, with the intention of potentially donating the land currently functioning as community green space and roadways to the new association. During 2017 and 2016, no New Hope homeowners earned title to their independent parcel. The number of donated parcels totaled 29 as of December 31, 2017 and 2016. The Organization will continue the donations until all of the allotted parcels are donated to current residents of New Hope Village as they are earned. The Organization will continue to own the offices, school, community building, and wastewater treatment facility at New Hope Village. In addition, the Organization continues to own approximately 132,000 square meters of partially developed land with a book value of approximately \$264,000, of which a portion may be available for donation to New Hope residents in future years.

Long-Term Liability - Severance

The Organization has a universal severance policy for all Guatemalan employees who have been working for at least one year. Each Guatemalan employee, upon termination of employment, either voluntary or involuntary, will receive one month of additional pay for each year of employment. This policy complies with the Labor Code of the Congress of the Republic of Guatemala.

Prior to 2017, the Organization had been accruing the severance liability at 50% of the settlement value. For the accounting period 2017, it was determined that the severance liability should be increased to 100% of the settlement value in order to best reflect the Organization's policy and practices. The change in the liability was recorded as a benefit expense during the year ended December 31, 2017. At December 31, 2017 and 2016, the severance liability totaled \$804,322 and \$412,803, respectively.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Fair Value of Financial Instruments

The Organization's accounting for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis adheres to the Financial Accounting Standards Board (FASB) fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Organization at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Organization's assets that are recorded at fair value are classified as shown in Note 9.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. With regard to gifts of property, plant, and equipment or gifts of cash to be used to acquire such assets, absent specific donor stipulations, the Organization reports such gifts as net assets released from restrictions when the donated or acquired long-lived assets are placed in service.

During 2017, one donor contributed \$825,000 or 17% of total contributions.

Donated Services

A significant portion of the Organization's functions are conducted by unpaid volunteers, the value of which is not recorded in the consolidated financial statements because these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America. Various medical and other professionals also contribute their services to the Organization, the estimated value of which is approximately \$114,000 and \$72,000 for the years ended December 31, 2017 and 2016, respectively, and is recognized as contributions (revenue) and services and professional fees and other (expense) in the accompanying consolidated financial statements.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Basis of Allocating Functional Expenses

Allocations are generally made as follows:

- Salaries by time spent on principal activities of each employee
- Employee benefits and payroll taxes according to the percentage used to allocate salaries
- All other expenses are directly allocable or allocated in a manner as considered practicable

Income Taxes

Common Hope is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Due to its exempt status, the Organization does not have any significant tax uncertainties that would require recognition or disclosure. However, income from activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income. The Organization is no longer subject to income tax examinations for years before 2014.

Fundación is a foundation operating under Guatemalan laws and is generally exempt from taxes based on income.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which will change how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and related notes about the organization's liquidity and financial performance. The amendment was issued for the purposes of reducing complexities as well as improving the usefulness and relevance of the information provided to donors, grantors, creditors, and other financial statement users about a not-for-profit entity's resources, and the changes in those resources. The new standard is effective for the Organization for the fiscal year ending December 31, 2018 and is to be applied on a retrospective basis.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires organizations to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective annually beginning after December 15, 2019. It is to be adopted using a modified retrospective approach. The Organization is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In May 2014 and amended in August 2015, the FASB issued ASU No. 2014-09 which amended *Revenue from Contracts with Customers (Topic 606)* of the Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Organization for annual periods beginning after December 15, 2018. The Organization is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

Reclassification

Certain items were reclassified on the 2016 statement of financial position to conform to classifications used on the 2017 statement of financial position. These reclassifications did not have any impact on the statement of activities or net assets for 2016.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Subsequent Events

The Organization has evaluated subsequent events through July 17, 2018, the date which the consolidated financial statements were available to be issued.

2. PLEDGES RECEIVABLE

Pledges receivable consist of the following at January 31:

	<u>2017</u>	<u>2016</u>
Pledges - child sponsorship	\$ 19,914	\$ 1,545
Pledges - education	70,000	30,000
Less unamortized discount	<u>(1,667)</u>	<u>(1,406)</u>
Total pledges receivable	<u>\$ 88,247</u>	<u>\$ 30,139</u>
Amounts are due in:		
Less than one year	\$ 54,914	\$ 11,545
One to five years	35,000	20,000
	<u>89,914</u>	<u>31,545</u>
Less unamortized discount (5.00% for 2017 and 2016)	<u>(1,667)</u>	<u>(1,406)</u>
Total pledges receivable	<u>\$ 88,247</u>	<u>\$ 30,139</u>

3. LINE OF CREDIT

The Organization had a \$300,025 unsecured working capital line of credit with a zero balance at December 31, 2016 with its bank through June 2017. The Organization did not renew its line of credit at expiration.

4. PARTNER SCHOOL INITIATIVE

In 2011, the Organization began a campaign to fund the Partner School Initiative (“the Initiative”). The Initiative was a pilot partnership that started with 7 public primary schools in the Antigua area, designed to improve the quality of education that students receive. Partnerships were formed with 7 schools; however, one school did not fulfill its requirements, thus the agreement with this school was not renewed after its first year. The Organization was seeking to raise \$2.8 million for the Initiative from 2011 to 2015; however, with the change to only 6 schools, the goal was reduced to \$2.4 million in 2016. As of December 31, 2015, the total amount committed was \$2,354,000, and as of December 31, 2017 all commitments were received and recognized.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

5. INVESTMENTS

Investments consist of the following instruments at December 31:

	<u>2017</u>	<u>2016</u>
Short-term investments:		
U.S. equity securities	\$ 7,813	\$ 9,853
Certificates of deposit	200,874	27,577
Total short-term investments	<u>208,687</u>	<u>37,430</u>
Long-term investments:		
Bond funds	599,906	-
U.S. equity securities, mutual funds	526,291	392,204
Money market fund (reserves, Note 10)	237,856	-
International equity securities	14,325	8,873
Certificates of deposit	800,000	-
Mutual funds (reserves, Note 10)	-	123,323
Total long-term investments	<u>2,178,378</u>	<u>524,400</u>
Total investments	<u>\$ 2,387,065</u>	<u>\$ 561,830</u>

For the years ended December 31, 2017 and 2016, the Organization recorded unrealized and realized net gains on its investments of approximately \$79,000 and \$38,000, respectively, which are recognized in unrestricted net assets.

6. OPERATING LEASE COMMITMENTS

The Organization moved into their present St. Paul office location effective October 1, 2013. The lease contains escalating rental payments for 91 months, expiring on May 1, 2021. The Organization is obligated to pay costs of insurance, repairs, and maintenance pursuant to the terms of the lease. Rent expense, including executory costs, totaled approximately \$53,000 and \$57,000 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease commitments for office space are as follows at December 31, 2017:

	<u>Lease Commitments</u>
2018	\$ 27,060
2019	27,872
2020	28,708
2021	<u>9,663</u>
Total	<u>\$ 93,303</u>

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Health care programs	\$ -	\$ 961
Education programs	130,688	193,727
New communities	68,333	28,594
	<u>199,021</u>	<u>223,282</u>
Totals	<u>\$ 199,021</u>	<u>\$ 223,282</u>

Total net assets released from donor restrictions because the restricted purposes and occurrence of other events as specified by donors were satisfied as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Family & Community Development	\$ 1,925,398	\$ 1,855,879
Housing improvement programs	55,128	53,267
Health care programs	53,303	67,919
Education programs	218,099	620,895
New communities	35,261	10,000
	<u>2,287,189</u>	<u>2,607,960</u>
Total net assets released from restrictions	<u>\$ 2,287,189</u>	<u>\$ 2,607,960</u>

Child sponsorship funds can be released for expenses in any of the following programs: family & community development, housing improvement, health care, and education.

8. RETIREMENT BENEFITS

The Organization has a SIMPLE IRA plan which is offered to all U.S. full-time employees and part-time employees working over 1,300 hours per year. The Organization matched employee contributions to a maximum of 3% of each covered employee's contribution to the plan as of December 31, 2017 and 2016. The Organization's matching contribution totaled approximately \$25,000 and \$21,000 for the years ended December 31, 2017 and 2016, respectively.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

9. FAIR VALUE

The following table provides information on those assets that are measured at fair value on a recurring basis.

	December 31, 2017			
	Fair Value & Carrying Amount	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds, classified as:				
Cash and cash equivalents	\$ 1,146,570	\$ 1,146,570	\$ -	\$ -
Short-term investments:				
U.S. equity securities	7,813	7,813	-	-
Long-term investments:				
Bond funds	599,906	599,906		
U.S. equity securities, mutual funds	526,291	526,291	-	-
Money market funds	237,856	237,856		
International equity securities	14,325	14,325		
Total	<u>\$ 2,532,761</u>	<u>\$ 2,532,761</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2016				
	Fair Value & Carrying Amount	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds, classified as:				
Cash and cash equivalents	\$ 1,468,246	\$ 1,468,246	\$ -	\$ -
Short-term investments:				
U.S. equity securities	9,853	9,853	-	-
Long-term investments:				
U.S. equity securities, mutual funds	392,204	392,204	-	-
International equity securities	8,873	8,873		
Mutual funds (reserves)	123,323	123,323	-	-
Total	<u>\$ 2,002,499</u>	<u>\$ 2,002,499</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of the money market funds, mutual funds, and U.S. and international equity securities are based on quoted market prices in an active market.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

10. BOARD DESIGNATED FUNDS

Board Designated – Endowment Funds

The Organization has established an endowment fund that consists of board designated funds for the purpose of a sponsorship legacy to provide long-term financial support to the Organization. As required by U.S. generally accepted accounting principles, net assets associated with reserve funds are classified and reported based on the existence or absence of donor imposed restrictions. Since the Organization's reserve fund currently consists of board designated funds rather than donor restricted amounts, such funds are classified within unrestricted net assets. The board designated endowment reserve is supported by the specific investments as disclosed in Note 5.

Return Objectives and Risk Parameters

The reserves are managed according to the Board of Directors' investment policies. These policies attempt to provide a consistent return on assets and preserve capital and the purchasing power of the reserve assets, while providing a predictable funding stream to support programs.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's policy requires targeting diversified asset allocations that seek to achieve its long-term return objectives within prudent risk constraints. The Organization targets a diversified asset allocation that places emphasis on equity and fixed income-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

As approved by the Finance Committee and Chief Executive Officer, the Organization determines the amounts appropriated for expenditure from the investment funds. The Organization may draw up to 4% of the reserve in any fiscal year for the purpose of supporting the sponsorship program.

These spending policies are consistent with the Organization's objective to maintain the purchasing power of endowment assets held in perpetuity, to provide a consistent and predictable funding stream to support the endowment purposes specified, as well as to provide additional growth through investment return.

Board Designated Strategic Initiatives Fund

In 2017, the Organization established a strategic initiatives fund that consists of board designated funds for the purpose of covering costs associated with the Organization's long-term strategic plans.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Changes in Board-Designated Reserves and Restricted Net Assets

	Year Ended December 31, 2017				Total
	Unrestricted Designated Endowment	Unrestricted Designated Strategic Initiatives	Temporarily Restricted	Permanently Restricted	
Net assets, beginning of year	\$ 123,323	\$ -	\$ -	\$ -	\$ 123,323
Investment income, net appreciation (realized and unrealized)	14,533		-	-	14,533
New Board designations	100,000	525,000			625,000
Satisfaction of Board designations		(34,948)			(34,948)
Net assets, end of year	<u>\$ 237,856</u>	<u>\$ 490,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 727,908</u>

	Year Ended December 31, 2016			Total
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	
Net assets, beginning of year	\$ 108,939	\$ -	\$ -	\$ 108,939
Investment income, net appreciation (realized and unrealized)	14,384	-	-	14,384
Net assets, end of year	<u>\$ 123,323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,323</u>