

COMMON HOPE

Saint Paul, Minnesota

Consolidated Financial Statements

December 31, 2018 and 2017

COMMON HOPE

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Consolidated Statements of Functional Expenses	6
Notes to Consolidated Financial Statements	7 - 18



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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, in fiscal year 2018 the Organization adopted Accounting Standard Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by ASU 2016-14, certain provisions of the new standard were applied retrospectively to the previously issued comparative fiscal 2017 financial statements. Our opinion is not modified with respect to this matter.

Boulay PLLP

Minneapolis, Minnesota
June 28, 2019

COMMON HOPE

Consolidated Statements of Financial Position

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents		
U.S.	\$ 1,604,009	\$ 1,517,058
Guatemala	139,060	31,149
Total cash and cash equivalents	<u>1,743,069</u>	<u>1,548,207</u>
Accounts receivable	22,033	3,173
Pledges receivable, current portion	62,114	54,914
Prepaid expenses	49,639	53,539
Investments, short-term	198,106	208,687
Other	9,082	23,429
Total current assets	<u>2,084,043</u>	<u>1,891,949</u>
Investments, net of short-term	1,938,569	2,178,378
Property, Plant and Equipment, Guatemala		
Land and land improvements	1,768,536	1,759,118
Buildings	4,056,481	4,080,597
Equipment	107,965	101,551
Vehicles	223,575	180,710
	<u>6,156,557</u>	<u>6,121,976</u>
Less: accumulated depreciation	3,027,957	2,880,774
Net property, plant and equipment, Guatemala	<u>3,128,600</u>	<u>3,241,202</u>
Office Equipment, U.S.	83,687	66,655
Less: accumulated depreciation	43,605	57,152
Net office equipment, U.S.	<u>40,082</u>	<u>9,503</u>
Other Long-term Assets		
Pledges receivable, long-term	9,569	33,333
Security deposit	4,047	4,047
Total other long-term assets	<u>13,616</u>	<u>37,380</u>
Total assets	<u>\$ 7,204,910</u>	<u>\$ 7,358,412</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 153,934	\$ 155,978
Volunteer trip deposits	116,150	107,500
Total current liabilities	<u>270,084</u>	<u>263,478</u>
Long-Term Liability - Severance	755,086	804,322
Net Assets		
Without donor restrictions		
Undesignated	5,469,041	5,363,683
Board designated	616,451	727,908
Total without donor restrictions	<u>6,085,492</u>	<u>6,091,591</u>
With donor restrictions	94,248	199,021
Total net assets	<u>6,179,740</u>	<u>6,290,612</u>
Total liabilities and net assets	<u>\$ 7,204,910</u>	<u>\$ 7,358,412</u>

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

COMMON HOPE

Consolidated Statements of Activities

	Year Ended December 31 2018			Year Ended December 31 2017		
	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
Revenues and Other Support						
Contributions	\$ 3,897,656	\$ 1,607,116	\$ 2,290,540	\$ 4,768,045	\$ 2,505,117	\$ 2,262,928
Interest and dividend income	57,566	57,566	-	22,925	22,925	-
Unrealized and realized gain (loss) on investments, net of investment expense of \$5,842 and \$9,107, respectively	(52,271)	(52,271)	-	70,351	70,351	-
Program fees	277,439	277,439	-	268,244	268,244	-
Miscellaneous income, net of expenses of \$124,064 in 2018 and \$82,462 in 2017	356,578	356,578	-	115,413	115,413	-
Net assets released from restrictions:						
Satisfaction of program restrictions	-	2,395,313	(2,395,313)	-	2,287,189	(2,287,189)
Total revenues and other support	<u>4,536,968</u>	<u>4,641,741</u>	<u>(104,773)</u>	<u>5,244,978</u>	<u>5,269,239</u>	<u>(24,261)</u>
Expenses						
Program operating expenses						
Health care	554,794	554,794	-	582,480	582,480	-
Family and community development	1,080,950	1,080,950	-	1,122,048	1,122,048	-
Housing improvement	223,351	223,351	-	155,286	155,286	-
Education	1,864,769	1,864,769	-	2,189,814	2,189,814	-
Emergency response	44,584	44,584	-	-	-	-
General and administrative	553,735	553,735	-	600,304	600,304	-
Fundraising	325,657	325,657	-	322,292	322,292	-
Total expenses	<u>4,647,840</u>	<u>4,647,840</u>	<u>-</u>	<u>4,972,224</u>	<u>4,972,224</u>	<u>-</u>
Change in Net Assets	(110,872)	(6,099)	(104,773)	272,754	297,015	(24,261)
Net Assets - Beginning of year	<u>6,290,612</u>	<u>6,091,591</u>	<u>199,021</u>	<u>6,017,858</u>	<u>5,794,576</u>	<u>223,282</u>
Net Assets - End of year	<u><u>\$ 6,179,740</u></u>	<u><u>\$ 6,085,492</u></u>	<u><u>\$ 94,248</u></u>	<u><u>\$ 6,290,612</u></u>	<u><u>\$ 6,091,591</u></u>	<u><u>\$ 199,021</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,	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ (110,872)	\$ 272,754
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	173,770	165,020
Unrealized and realized loss/(gain) on investments	46,429	(79,458)
Loss (gain) on donated stock	5,330	(7,674)
Loss (gain) on disposal of property and equipment	1,301	(615)
Change in assets and liabilities:		
Accounts and pledges receivable	(2,296)	(53,781)
Prepaid expenses	3,900	(24,119)
Other current assets	14,347	(16,283)
Accounts payable and accrued liabilities	(52,614)	421,768
Volunteer trip deposits	8,650	16,630
Net cash from operating activities	87,945	694,242
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,143,128	719,005
Purchase of investments	(944,497)	(2,457,108)
Purchase of property and equipment	(91,714)	(62,817)
Proceeds from sale of property and equipment	-	3,200
Net cash from (used for) investing activities	106,917	(1,797,720)
Net Increase (Decrease) in Cash and Cash Equivalents	194,862	(1,103,478)
Cash and Cash Equivalents - Beginning of Year	1,548,207	2,651,685
Cash and Cash Equivalents - End of Year	\$ 1,743,069	\$ 1,548,207
Supplemental Disclosure of Non-cash Investing Activities		
Fixed asset purchases included in accounts payable	\$ 1,334	\$ 8,730

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

COMMON HOPE

Consolidated Statements of Functional Expenses

	Year Ended December 31, 2018							
	Program Operating Expenses						Supporting Services	
	Total	Health Care	Family & Community Development	Housing Improvement	Education	Emergency Response	General and Administrative	Fundraising
Specific assistance	\$ 1,156,228	\$ 250,058	\$ 104,262	\$ 65,753	\$ 693,481	\$ 42,674	\$ -	\$ -
Salaries, taxes and benefits	2,513,740	245,744	821,426	92,430	947,811	-	210,826	195,503
Occupancy, utilities and maintenance	180,951	14,234	38,938	9,820	41,112	-	39,679	37,168
Meetings and travel	93,780	1,551	22,399	2,328	24,206	-	29,072	14,224
Office expenses	235,073	14,998	31,377	1,562	32,120	1,910	125,868	27,238
Printing, copies and postage	60,745	1,716	13,706	615	7,903	-	14,631	22,174
Professional fees and business insurance	166,599	6,882	35,470	5,284	26,294	-	67,395	25,274
Credit card and banking fees	57,133	36	258	22	106	-	56,711	-
Miscellaneous expense	9,821	849	1,878	594	1,850	-	2,452	2,198
Depreciation expense	173,770	18,726	11,236	44,943	89,886	-	7,101	1,878
Total expenses	<u>\$ 4,647,840</u>	<u>\$ 554,794</u>	<u>\$ 1,080,950</u>	<u>\$ 223,351</u>	<u>\$ 1,864,769</u>	<u>\$ 44,584</u>	<u>\$ 553,735</u>	<u>\$ 325,657</u>

	Year Ended December 31, 2017							
	Program Operating Expenses						Supporting Services	
	Total	Health Care	Family & Community Development	Housing Improvement	Education	Emergency Response	General and Administrative	Fundraising
Specific assistance	\$ 1,012,977	\$ 174,147	\$ 170,933	\$ 32,768	\$ 635,129	\$ -	\$ -	\$ -
Salaries, taxes and benefits	2,988,210	318,144	761,151	56,697	1,175,763	-	437,799	238,656
Occupancy, utilities and maintenance	164,655	15,192	37,682	3,057	63,335	-	14,180	31,209
Meetings and travel	99,229	9,000	28,707	3,076	39,999	-	8,921	9,526
Office expenses	258,796	28,645	63,171	7,376	115,769	-	12,541	31,294
Printing, copies and postage	62,416	5,461	17,657	1,735	24,760	-	5,611	7,192
Professional fees and business insurance	170,501	13,461	26,769	10,648	47,038	-	71,340	1,245
Credit card and banking fees	40,613	31	225	19	92	-	40,246	-
Miscellaneous expense	9,807	847	1,875	593	1,847	-	2,451	2,194
Depreciation expense	165,020	17,552	13,878	39,317	86,082	-	7,215	976
Total expenses	<u>\$ 4,972,224</u>	<u>\$ 582,480</u>	<u>\$ 1,122,048</u>	<u>\$ 155,286</u>	<u>\$ 2,189,814</u>	<u>\$ -</u>	<u>\$ 600,304</u>	<u>\$ 322,292</u>

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

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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, family and community, housing, and emergency response. 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 2018 and 2017, 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 3).

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.

Emergency Response - The Organization provides emergency response support to the people of Guatemala after a disaster. During 2018, a volcano erupted in Guatemala causing devastation to nearby homes and families. The Organization provided support and aid to the people affected by the eruption.

Reclassification

The presentation of certain items in the financial statement for the year ended December 31, 2017 have been changed to conform to the classifications used in 2018. These reclassifications had no effect on the net assets or the change in net assets as previously reported.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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.

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

- Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations
- Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Donor restrictions are temporary in nature, such as those that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

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 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 \$1,261,000 and \$1,384,000 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017 approximately \$1,261,000 and \$1,146,000 of the money market funds were classified within cash and cash equivalents, respectively. At 2017 approximately \$238,000 of money market funds were included in investments due to board designations on the funds as discussed in Note 9.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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 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 \$788,000 and \$1,001,000 at December 31, 2018 and 2017, 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 completing an association in New Hope Village as a separate legal entity, subsequently donating the land currently functioning as community green space and roadways to the new association. The Organization will continue to own the offices, school, community building, and wastewater treatment facility at New Hope Village. 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 to New Hope residents in future years.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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. At December 31, 2018 and 2017, the severance liability totaled approximately \$755,000 and \$804,000, respectively.

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 8.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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, the Organization received an estate gift of \$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 \$85,000 and \$114,000 for the years ended December 31, 2018 and 2017, respectively, and is recognized as contributions (revenue) and services and professional fees and other (expense) in the accompanying consolidated financial statements.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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.

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 Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), which addresses how not-for-profit organizations classify their net assets, as well as the information presented in the financial statements and related disclosures. The Organization has adopted this standard as of January 1, 2018 and has adjusted the presentation of its financial statements accordingly. The primary effects of new standard are the classifications of net assets and activities into the two categories of "with donor restrictions" and "without donor restrictions", rather than the previous three categories of unrestricted, temporarily restricted, and permanently restricted net assets, and additional required disclosures of the availability and liquidity of resources. ASU 2016-14 has been applied retrospectively to the fiscal year 2017 comparative financial statements.

Recently Issued Accounting Pronouncements

In May 2014 and subsequently amended, 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 has evaluated the impact that the adoption of this guidance will have on its consolidated financial statements and does not believe it will be material.

In June 2018 the FASB issued ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance was issued to clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

commensurate value in return for the resources transferred. The new standard is to be applied on a modified prospective basis, although retrospective application is permitted. For transactions in which the Organization serves as the resource recipient, the amendments are effective for annual periods beginning January 1, 2019, and interim periods within annual periods beginning after January 1, 2020. For transactions in which the Organization serves as the resource provider, the amendments are effective for annual periods beginning January 1, 2020, and interim periods within annual periods after January 1, 2021. Early adoption of the amendment is permitted. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires entities 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 for the Organization for annual periods beginning January 1, 2020 with early adoption permitted. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-03, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other documents to extend credit held by the reporting entity. The ASU is effective for the Organization for annual periods beginning January 1, 2020. The Organization is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*. This ASU improves the effectiveness of the notes to financial statements through changes in disclosure requirements for fair value measurement. The ASU is effective for annual periods beginning January 1, 2020. The Organization is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

Subsequent Events

The Organization has evaluated subsequent events through June 28, 2019, the date which the consolidated financial statements were available to be issued.

2. PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Pledges - child sponsorship	\$ 17,114	\$ 19,914
Pledges - education	55,000	70,000
Less unamortized discount	<u>(431)</u>	<u>(1,667)</u>
Total pledges receivable	<u>\$ 71,683</u>	<u>\$ 88,247</u>
Amounts are due in:		
Less than one year	\$ 62,114	\$ 54,914
One to five years	<u>10,000</u>	<u>35,000</u>
	72,114	89,914
Less unamortized discount (5.00% for 2018 and 2017)	<u>(431)</u>	<u>(1,667)</u>
Total pledges receivable	<u>\$ 71,683</u>	<u>\$ 88,247</u>

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

3. 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, the program ended and all commitments were received and recognized.

4. INVESTMENTS

Investments consist of the following instruments at December 31:

	<u>2018</u>	<u>2017</u>
Short-term investments:		
U.S. equity securities	\$ 1,879	\$ 7,813
Certificates of deposit	196,227	200,874
Total short-term investments	<u>198,106</u>	<u>208,687</u>
Long-term investments:		
Bond funds	-	599,906
U.S. equity securities, mutual funds	1,319,027	526,291
Money market fund	-	237,856
International equity securities	27,434	14,325
Certificates of deposit	592,108	800,000
Total long-term investments	<u>1,938,569</u>	<u>2,178,378</u>
Total investments	<u>\$ 2,136,675</u>	<u>\$ 2,387,065</u>

For the years ended December 31, 2018 and 2017, the Organization recorded unrealized and realized net loss on its investments of approximately \$27,000 and net gain of approximately \$87,000, respectively, which are recognized in net assets without donor restrictions.

5. OPERATING LEASE COMMITMENTS

The Organization leases its office location in St. Paul. 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. The Organization also has a postage machine lease, expiring July 5, 2023. Rent expense, including executory costs, totaled approximately \$55,000 and \$53,000 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease commitments for office space are as follows at December 31, 2018:

	<u>Lease Commitments</u>
2019	\$ 28,544
2020	29,380
2021	10,335
2022	672
2023	392
Total	<u>\$ 69,323</u>

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

6. NET ASSETS

Net assets with donor restrictions were restricted for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Education programs	84,248	179,021
New communities	10,000	20,000
Totals	<u>\$ 94,248</u>	<u>\$ 199,021</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>2018</u>	<u>2017</u>
Family and Community Development	\$ 2,057,300	\$ 1,925,398
Housing improvement programs	30,671	55,128
Health care programs	74,558	53,303
Education programs	189,020	218,099
New communities	43,764	35,261
Total net assets released from restrictions	<u>\$ 2,395,313</u>	<u>\$ 2,287,189</u>

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

7. 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, 2018 and 2017. The Organization's matching contribution totaled approximately \$26,000 and \$25,000 for the years ended December 31, 2018 and 2017, respectively.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

8. FAIR VALUE

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

	December 31, 2018			
	Fair Value & Carrying Amount	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds, classified as:				
Cash and cash equivalents	\$ 1,260,837	\$ 1,260,837	\$ -	\$ -
Short-term investments:				
U.S. equity securities	1,879	1,879	-	-
Long-term investments:				
U.S. equity securities, mutual funds	1,319,027	1,319,027	-	-
International equity securities	27,434	27,434	-	-
Total	<u>\$ 2,609,177</u>	<u>\$ 2,609,177</u>	<u>\$ -</u>	<u>\$ -</u>

	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>

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, 2018 and 2017

9. WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

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 as net assets without donor restrictions. The board designated endowment reserve is supported by the investments as disclosed in Note 4.

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

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, 2018 and 2017

9. WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED (CONTINUED)Changes in Board-Designated Reserves and Net Assets with Donor Restrictions

	Year Ended December 31, 2018			Total
	Without Donor Restrictions – Board Designated Endowment	Without Donor Restrictions – Board Designated Strategic Initiatives	With Donor Restrictions	
Net assets, beginning of year	\$ 237,856	\$ 490,052	\$ -	\$ 727,908
Investment income, net depreciation (realized and unrealized)	(7,105)	-	-	(7,105)
Satisfaction of Board designations	-	(104,352)	-	(104,352)
Net assets, end of year	<u>\$ 230,751</u>	<u>\$ 385,700</u>	<u>\$ -</u>	<u>\$ 616,451</u>
	Year Ended December 31, 2017			Total
	Without Donor Restrictions – Designated Endowment	Without Donor Restrictions – Designated Strategic Initiatives	With Donor Restrictions	
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>\$ 727,908</u>

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

10. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the financial position date are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Financial Assets at December 31:		
Cash and cash equivalents	\$ 1,743,069	\$ 1,548,207
Investments, short term	198,106	208,687
Investments, readily convertible into cash, net of board designated	<u>1,322,118</u>	<u>1,450,470</u>
Total financial assets available within one year	<u>\$ 3,263,293</u>	<u>\$ 3,207,364</u>

The Organization's working capital and cash flow varies throughout the year. The Organization receives over 50 percent of its annual revenue in the fourth quarter of the calendar year. The Organization aspires to maintain recurring revenue, such as sponsorship and partnership revenue, at 42 percent or more of total revenue.

The Organization has policies in place to manage cash flow, liquidity, and risk. Board designated appropriations are approved annually during the standard budget process. Cash in excess of daily requirements is invested in short-term and money market funds. Other reserves are maintained in long-term investment funds, that are readily convertible into cash for the stability and future viability of the Organization.