

COMMON HOPE

Saint Paul, Minnesota

Consolidated Financial Statements

December 31, 2019 and 2018

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 - 17



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, 2019 and 2018, 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, 2019 and 2018 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

Minneapolis, Minnesota
July 31, 2020

COMMON HOPE

Consolidated Statements of Financial Position

ASSETS	December 31	
	2019	2018
Current Assets		
Cash and cash equivalents		
U.S.	\$ 1,643,941	\$ 1,604,009
Guatemala	66,327	139,060
Total cash and cash equivalents	1,710,268	1,743,069
Accounts receivable	9,951	22,033
Pledges receivable, current portion	14,492	62,114
Prepaid expenses	68,279	49,639
Investments, short-term	409,598	198,106
Other	2,715	9,082
Total current assets	2,215,303	2,084,043
Investments, net of short-term	2,320,443	1,938,569
Property, Plant and Equipment, Guatemala		
Land and land improvements	1,768,536	1,768,536
Buildings	4,056,481	4,056,481
Equipment	107,965	107,965
Vehicles	195,248	223,575
	6,128,230	6,156,557
Less: accumulated depreciation	3,159,426	3,027,957
Net property, plant and equipment, Guatemala	2,968,804	3,128,600
Office Equipment, U.S.		
Less: accumulated depreciation	83,687	83,687
Net office equipment, U.S.	55,205	43,605
	28,482	40,082
Other Long-term Assets		
Pledges receivable, long-term	-	9,569
Security deposit	4,047	4,047
Total other long-term assets	4,047	13,616
Total assets	\$ 7,537,079	\$ 7,204,910
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 93,213	\$ 153,934
Deferred revenue	186,554	116,150
Total current liabilities	279,767	270,084
Long-Term Liability - Severance	769,602	755,086
Net Assets		
Without donor restrictions		
Undesignated	5,816,568	5,469,041
Board designated	661,142	616,451
Total without donor restrictions	6,477,710	6,085,492
With donor restrictions	10,000	94,248
Total net assets	6,487,710	6,179,740
Total liabilities and net assets	\$ 7,537,079	\$ 7,204,910

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

COMMON HOPE

Consolidated Statements of Activities

	Year Ended December 31 2019			Year Ended December 31 2018		
	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
Revenues and Other Support						
Contributions	\$ 4,027,825	\$ 1,695,513	\$ 2,332,312	\$ 3,897,656	\$ 1,607,116	\$ 2,290,540
Interest and dividend income	58,695	58,695	-	57,566	57,566	-
Unrealized and realized gain (loss) on investments, net of investment expense of \$3,281 and \$5,842, respectively	320,630	320,630	-	(52,271)	(52,271)	-
Program fees	348,451	348,451	-	277,439	277,439	-
Miscellaneous income, net of expenses of \$127,225 and \$124,064, respectively	341,604	341,604	-	356,578	356,578	-
Net assets released from restrictions:						
Satisfaction of program restrictions	-	2,416,560	(2,416,560)	-	2,395,313	(2,395,313)
Total revenues and other support	<u>5,097,205</u>	<u>5,181,453</u>	<u>(84,248)</u>	<u>4,536,968</u>	<u>4,641,741</u>	<u>(104,773)</u>
Expenses						
Program operating expenses						
Health care	560,134	560,134	-	554,794	554,794	-
Family and community development	1,171,648	1,171,648	-	1,080,950	1,080,950	-
Housing improvement	363,099	363,099	-	223,351	223,351	-
Education	1,738,243	1,738,243	-	1,864,769	1,864,769	-
Emergency response	-	-	-	44,584	44,584	-
General and administrative	691,008	691,008	-	553,735	553,735	-
Fundraising	265,103	265,103	-	325,657	325,657	-
Total expenses	<u>4,789,235</u>	<u>4,789,235</u>	<u>-</u>	<u>4,647,840</u>	<u>4,647,840</u>	<u>-</u>
Change in Net Assets	307,970	392,218	(84,248)	(110,872)	(6,099)	(104,773)
Net Assets - Beginning of year	<u>6,179,740</u>	6,085,492	94,248	6,290,612	6,091,591	199,021
Net Assets - End of year	<u><u>\$ 6,487,710</u></u>	<u><u>\$ 6,477,710</u></u>	<u><u>\$ 10,000</u></u>	<u><u>\$ 6,179,740</u></u>	<u><u>\$ 6,085,492</u></u>	<u><u>\$ 94,248</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,	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 307,970	\$ (110,872)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	180,857	173,770
Unrealized and realized loss/(gain) on investments	(323,911)	46,429
Loss (gain) on donated stock	(37,785)	5,330
Loss on disposal of property and equipment	7,303	1,301
Change in assets and liabilities:		
Accounts and pledges receivable	69,273	(2,296)
Prepaid expenses	(18,640)	3,900
Other current assets	6,367	14,347
Accounts payable and accrued liabilities	(44,871)	(52,614)
Deferred revenue	70,404	8,650
Net cash from operating activities	<u>216,967</u>	<u>87,945</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	946,583	1,143,128
Purchase of investments	(1,178,253)	(944,497)
Purchase of property and equipment	(18,098)	(91,714)
Net cash from (used for) investing activities	<u>(249,768)</u>	<u>106,917</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(32,801)	194,862
Cash and Cash Equivalents - Beginning of Year	<u>1,743,069</u>	<u>1,548,207</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 1,710,268</u></u>	<u><u>\$ 1,743,069</u></u>
Supplemental Disclosure of Non-cash Investing Activities	2019	2018
Fixed asset purchases included in accounts payable	\$ -	\$ 1,334

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

COMMON HOPE

Consolidated Statements of Functional Expenses

	Year Ended December 31, 2019							
	Program Operating Expenses						Supporting Services	
	Total	Health Care	Family & Community Development	Housing Improvement	Education	Emergency Response	General and Administrative	Fundraising
Specific assistance	\$ 1,288,968	\$ 263,069	\$ 143,897	\$ 172,185	\$ 709,817	\$ -	\$ -	\$ -
Salaries, taxes, and benefits	2,513,013	229,554	768,932	111,405	795,566	-	429,346	178,210
Occupancy, utilities, and maintenance	189,599	21,609	70,047	14,486	49,638	-	18,105	15,714
Meetings and travel	94,584	2,349	27,676	4,124	25,142	-	25,225	10,068
Office expenses	209,275	11,393	53,725	3,791	27,546	-	91,589	21,231
Printing, copies, and postage	66,793	3,975	24,837	1,481	12,667	-	9,043	14,790
Professional fees and business insurance	177,498	7,878	70,356	8,369	22,173	-	49,408	19,314
Credit card and banking fees	60,764	10	44	4	22	-	60,652	32
Miscellaneous expense	7,884	838	458	548	2,261	-	204	3,575
Depreciation expense	180,857	19,459	11,676	46,706	93,411	-	7,436	2,169
Total expenses	<u>\$ 4,789,235</u>	<u>\$ 560,134</u>	<u>\$ 1,171,648</u>	<u>\$ 363,099</u>	<u>\$ 1,738,243</u>	<u>\$ -</u>	<u>\$ 691,008</u>	<u>\$ 265,103</u>

	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>

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

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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. The Organization promotes 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 the Organization affiliate include the following:

Education - The Organization helped provide pre-primary, primary, secondary, and university education for approximately 3,700 and 3,500 children during 2019 and 2018, respectively, 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.

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.

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, 2019 and 2018

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, and the differences could be material.

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 consolidated 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 \$1,036,000 and \$1,261,000 at December 31, 2019 and 2018, respectively, and 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.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 \$1,013,000 and \$788,000 at December 31, 2019 and 2018, 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 are primarily located in Guatemala, are stated at cost. Donated property, plant, and equipment are 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.

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, 2019 and 2018, the severance liability totaled approximately \$770,000 and \$755,000, respectively.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 in their respective hierarchy as shown in Note 7.

The carrying value of accounts and pledges receivable, accounts payable and accrued liabilities, and deferred revenue and other financial working capital items approximate fair value, due to the short-term nature of these items.

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.

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 \$80,000 and \$85,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018

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 2015.

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

Recently Adopted Accounting Pronouncements

In June 2018, the FASB issued Accounting Standards Update (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 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. For transactions in which the Organization serves as the resource provider, the amendments are effective for annual periods beginning January 1, 2020. Early adoption of the amendment is permitted. The Organization adopted this standard as of January 1, 2019. The adoption of this standard did not have a material impact on the consolidated 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, 2019. 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.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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, 2022, with early adoption permitted. 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 July 31, 2020, the date which the consolidated financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. COVID-19 may have a significant adverse effect on the Organization's operating results due to government mandated restrictions in Guatemala for schools, transportation, and business operations. Financial conditions may also have significant adverse effects, as revenues are expected to be impacted due to restrictions on public gatherings, business operations, and economic impact on donors. Management continues to deliver programs and services to Guatemalan families in compliance with local restrictions throughout the pandemic. At this time, it is difficult to predict the effect and ultimate impact of the COVID-19 pandemic, as the situation is rapidly evolving.

Subsequent to year end, the Organization received a loan for approximately \$168,000 from the U.S. Small Business Administration through the Payroll Protection Program. The loan is due two years from the date of disbursement and accrued interest at 1%. All or a portion of the loan may be forgivable if the Organization meets certain conditional requirements.

2. PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Pledges - child sponsorship	\$ 4,492	\$ 17,114
Pledges - education	10,000	55,000
Less unamortized discount	-	(431)
Total pledges receivable	<u>\$ 14,492</u>	<u>\$ 71,683</u>
Amounts are due in:		
Less than one year	\$ 14,492	\$ 62,114
One to five years	-	10,000
	<u>14,492</u>	<u>72,114</u>
Less unamortized discount (5.00% for 2018)	-	(431)
Total pledges receivable	<u>\$ 14,492</u>	<u>\$ 71,683</u>

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

3. INVESTMENTS

Investments consist of the following instruments at December 31, 2019:

	Aggregate cost basis	Gross unrealized holdings gains	Gross unrealized holdings (losses)	Aggregate fair value
Short-term investments:				
U.S. equity securities	\$ 6,943	\$ -	\$ (6)	\$ 6,937
Certificates of deposit	402,661	-	-	402,661
Total short-term investments	<u>409,604</u>	<u>-</u>	<u>(6)</u>	<u>409,598</u>
Long-term investments:				
U.S. equity securities				-
Mutual funds	1,588,550	121,704	-	1,710,254
Certificates of deposit	610,189	-	-	610,189
Total long-term investments	<u>2,198,739</u>	<u>121,704</u>	<u>-</u>	<u>2,320,443</u>
Total investments	<u>\$ 2,608,343</u>	<u>\$ 121,704</u>	<u>\$ (6)</u>	<u>\$ 2,730,041</u>

Investments consist of the following instruments at December 31, 2018:

	Aggregate cost basis	Gross unrealized holdings gains	Gross unrealized holding (losses)	Aggregate fair value
Short-term investments:				
U.S. equity securities	\$ 1,935	\$ -	\$ (56)	\$ 1,879
Certificates of deposit	196,227	-	-	196,227
Total short-term investments	<u>198,162</u>	<u>-</u>	<u>-</u>	<u>198,106</u>
Long-term investments:				
U.S. equity securities	1,333,394	-	(14,367)	1,319,027
International equity securities	19,106	8,328	-	27,434
Certificates of deposit	592,108	-	-	592,108
Total long-term investments	<u>1,944,608</u>	<u>8,328</u>	<u>(14,367)</u>	<u>1,938,569</u>
Total investments	<u>\$ 2,142,770</u>	<u>\$ 8,328</u>	<u>\$ (14,423)</u>	<u>\$ 2,136,675</u>

For the years ended December 31, 2019 and 2018, the Organization recorded unrealized and realized net gain on its investments of approximately \$324,000 and a net loss on its investments of approximately \$46,000, respectively, which are recognized in net assets without donor restrictions.

4. 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 \$59,000 and \$55,000 for the years ended December 31, 2019 and 2018, respectively.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Future minimum lease commitments for office space and postage machine are as follows at December 31, 2019:

	<u>Lease Commitments</u>	
2020	\$	29,380
2021		10,335
2022		672
2023		392
Total	<u>\$</u>	<u>40,779</u>

5. NET ASSETS

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

	<u>2019</u>	<u>2018</u>
Education programs	\$ 10,000	\$ 84,248
New communities	-	10,000
Totals	<u>\$ 10,000</u>	<u>\$ 94,248</u>

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

	<u>2019</u>	<u>2018</u>
Family and community development	\$ 2,060,516	\$ 2,057,300
Housing improvement programs	116,087	30,671
Health care programs	61,673	74,558
Education programs	133,715	189,020
New communities	44,569	43,764
Total net assets released from restrictions	<u>\$ 2,416,560</u>	<u>\$ 2,395,313</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.

6. 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, 2019 and 2018. The Organization's matching contribution totaled approximately \$25,000 and \$26,000 for the years ended December 31, 2019 and 2018, respectively.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

7. FAIR VALUE

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

	December 31, 2019			
	Fair Value & Carrying Amount	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
<u>Assets:</u>				
Money market funds, classified as:				
Cash and cash equivalents	\$ 1,036,120	\$ 1,036,120	\$ -	\$ -
Short-term investments:				
U.S. equity securities – Large Cap	6,937	6,937	-	-
Long-term investments:				
U.S. equity securities – Lifestrategy funds	1,710,254	1,710,254	-	-
Total	<u>\$ 2,753,311</u>	<u>\$ 2,753,311</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2018			
	Fair Value & Carrying Amount	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
<u>Assets:</u>				
Money market funds, classified as:				
Cash and cash equivalents	\$ 1,260,837	\$ 1,260,837	\$ -	\$ -
Short-term investments:				
U.S. equity securities – Large Cap	1,879	1,879	-	-
Long-term investments:				
U.S. equity securities – Lifestrategy 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>

The fair value of the money market funds, mutual funds, and U.S. and international equity securities is based on quoted market prices in an active market. Certificates of deposit of \$1,012,850 and \$788,335 at December 31, 2019 and 2018, respectively, are not incurred above, as they are carried at cost plus accrued interest, which approximates fair value.

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

8. 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 3.

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, and 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, 2019 and 2018

8. WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED (CONTINUED)

Changes in Board-Designated Reserves and Net Assets with Donor Restrictions

	Year Ended December 31, 2019			
	Without Donor Restrictions – Board Designated Endowment	Without Donor Restrictions – Board Designated Strategic Initiatives	With Donor Restrictions	Total
Net assets, beginning of year	\$ 230,751	\$ 385,700	\$ -	\$ 616,451
Investment income, net depreciation (realized and unrealized)	44,691	-	-	44,691
Satisfaction of Board designations	-	-	-	-
Net assets, end of year	<u>\$ 275,442</u>	<u>\$ 385,700</u>	<u>\$ -</u>	<u>\$ 661,142</u>
	Year Ended December 31, 2018			
	Without Donor Restrictions – Designated Endowment	Without Donor Restrictions – Designated Strategic Initiatives	With Donor Restrictions	Total
Net assets, beginning of year	\$ 237,856	\$ 490,052	\$ -	\$ 727,908
Investment income, net appreciation (realized and unrealized)	(7,105)	-	-	(7,105)
New Board designations				
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>

COMMON HOPE

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

9. LIQUIDITY AND AVAILABILITY

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

	<u>2019</u>	<u>2018</u>
Financial Assets at December 31:		
Cash and cash equivalents	\$ 1,710,268	\$ 1,743,069
Investments, short term	409,598	198,106
Investments, readily convertible into cash, net of board designated	<u>1,659,301</u>	<u>1,322,118</u>
Total financial assets available within one year	<u>\$ 3,779,167</u>	<u>\$ 3,263,293</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.