ORPHANetwork

FINANCIAL STATEMENTS

DECEMBER 31, 2018

ORPHANetwork

Table of Contents

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finn gartman hart, certified public accountants, plc

INDEPENDENT AUDITORS' REPORT

The Board of Directors
ORPHANetwork
Virginia Beach, Virginia

Report on the Financial Statements

We have audited the accompanying statement of financial position of ORPHANetwork (the Organization), as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Organization, as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Virginia Beach, Virginia
March 12, 2019

ORPHANetwork
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 1,371,920
Pledges receivable	395,936
Prepaid expenses	5,176
TOTAL CURRENT ASSETS	1,773,032
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	52,922
INVESTMENTS	692,678
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION	86,590
SECURITY DEPOSIT	1,118
TOTAL ASSETS	$ 2,606,340

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 11,953
Accrued employee benefits	21,370
Accrued salaries and payroll taxes	67,568
TOTAL CURRENT LIABILITIES	100,891
NET ASSETS	
Without donor restrictions	
Board designated emergency and relief fund	500,000
Board designated reserve fund	60,000
Undesignated	1,354,895
With donor restrictions	590,554
TOTAL NET ASSETS	2,505,449
TOTAL LIABILITIES AND NET ASSETS	$ 2,606,340

The notes to financial statements are an integral part of this report.

ORPHANetwork
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	TOTAL
SUPPORT AND REVENUE			
Contributions and grants	$ 5,179,024	$ 512,077	$ 5,691,101
Special events	229,443	-	229,443
Interest earned	16,985	-	16,985
Unrealized loss on investments	(3,325)	-	(3,325)
Net assets released from restriction	975,925	(975,925)	-
TOTAL SUPPORT AND REVENUE	6,398,052	(463,848)	5,934,204
EXPENSES			
Program services			
Preparing for Jobs	241,639	-	241,639
Orphan Care	1,332,283	-	1,332,283
Platform of Health	3,195,351	-	3,195,351
Total program services	4,769,273	-	4,769,273
Support services			
Management and general	549,136	-	549,136
Fundraising	241,592	-	241,592
Total support services	790,728	-	790,728
TOTAL EXPENSES	5,560,001	-	5,560,001
NET INCREASE (DECREASE) IN NET ASSETS	838,051	(463,848)	374,203
NET ASSETS, BEGINNING OF PERIOD	1,076,844	1,054,402	2,131,246
NET ASSETS, END OF PERIOD	$ 1,914,895	$ 590,554	$ 2,505,449

The notes to financial statements are an integral part of this report.

ORPHANetwork
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services				Support Services		
	Preparing for Jobs	Orphan Care	Platform of Health	Total Program Services	Management and General	Fundraising	Total Expenses
Activities	$ 33,152	$ 2,318	$ 5,227	$ 40,697	$ -	$ -	$ 40,697
Bank and merchant account fees	9	49	117	175	23,396	-	23,571
Clothing	-	16,475	-	16,475	-	-	16,475
Depreciation and amortization	-	-	-	-	21,369	8,665	30,034
Development and meetings	42,228	6,670	12,116	61,014	16,452	-	77,466
Education and training	67,499	649,332	34,924	751,755	-	-	751,755
Equipment	-	4,058	13,237	17,295	601	-	17,896
Food	-	205,368	2,281,785	2,487,153	-	-	2,487,153
General program costs	-	24,947	19	24,966	-	-	24,966
Health care resources	-	20,188	12,169	32,357	-	-	32,357
Insurance	86	476	1,141	1,703	11,815	-	13,518
Miscellaneous	-	2,040	2,400	4,440	-	1,441	5,881
Mission trips	-	59,229	-	59,229	-	-	59,229
Office and facility expenses	4,233	73,224	76,786	154,243	37,652	15,716	207,611
Professional fees	-	245	5,810	6,055	22,471	-	28,526
Promotional materials	-	-	-	-	-	5,172	5,172
Repairs and maintenance	48	24,709	3,334	28,091	-	-	28,091
Salaries, benefits, and payroll taxes	94,285	127,277	437,347	658,909	364,067	166,099	1,189,075
Scholarships	-	57,697	-	57,697	-	-	57,697
Security	-	-	5,020	5,020	-	-	5,020
Shipping, customs, and distribution	-	-	179,658	179,658	-	-	179,658
Special event costs	-	-	-	-	-	29,747	29,747
Special projects and cases	-	30,887	41,998	72,885	-	-	72,885
Telephone	-	3,465	-	3,465	-	1,420	4,885
In-country transportation	-	19,623	67,720	87,343	-	-	87,343
Travel	99	4,006	14,543	18,648	51,313	13,332	83,293
	$ 241,639	$ 1,332,283	$ 3,195,351	$ 4,769,273	$ 549,136	$ 241,592	5,560,001

The notes to financial statements are an integral part of this report.

ORPHANetwork
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Net decrease in net assets during period	$ 374,203
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:	
Unrealized loss on investments	3,325
Depreciation and amortization	30,034
Changes in:	
Pledges receivable	(237,746)
Prepaid expenses	(5,176)
Accounts payable	6,372
Accrued salaries and payroll taxes	17,741
NET CASH PROVIDED BY OPERATING ACTIVITIES	188,753
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(9,472)
Purchase of intangible assets	(91,280)
Maturity of investments	295,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	194,248
NET INCREASE IN CASH FOR YEAR	383,001
CASH, BEGINNING OF YEAR	988,919
CASH, END OF YEAR	$ 1,371,920

The notes to financial statements are an integral part of this report.

Note A – Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization— ORPHANetwork (the Organization) is a nonprofit organization established to rescue abandoned, abused, and orphaned children into partner Child Protection Centers (orphanage homes) and prevent vulnerable children from becoming abandoned through the development of the local Nicaraguan church. Through our partners we create opportunities for new life and share Christ with everyone we encounter.

Together we are impacting the lives of 20,000 children on a daily basis to reach our vision that every vulnerable and orphaned child would be raised to their God-given potential.

Platform of Health

Our Platform of Health includes Phase 1 Life Saving and Phase 2 Life Changing Local Church Initiatives (LCIs) and Health & Nutrition Programs. The Phase 1 Life Saving LCI provides basic needs for survival in the form of soy-fortified rice and the development of local leaders. The Phase 2 Life Changing LCI provides beyond basic needs to eliminate malnutrition and establish a platform of health in the community that will ultimately break cycles of poverty. ORPHANetwork's Health and Nutrition program has aligned goals and actions to six global goals that the World Health Organization has defined as priorities (stunting, anemia, low birth weight, childhood overweight, breastfeeding, and wasting). Our partners are developed through quarterly leadership development trainings so they can execute the holistic programs that are designed to break cycles of poverty while empowering them to share Jesus Christ.

Opportunities for Orphans

Our Orphan Care segment includes Child Protection Centers (CPCs), Transition and Missions programs. Within our Child Protection Centers, we serve around 290 rescued children through five CPCs, or homes, across Nicaragua. We call them homes because the children are raised in a family environment with caregivers and staff that love the children as if they were their own. ORPHANetwork supports ministries whom rescue children that have been abandoned, abused, socially orphaned or truly orphaned. We focus on Seven Targets to create new opportunities for life for these children: following Christ, life skills and education, computer and English skills to get a good starter job, giving back to others at the CPC and serving in a local church.

The Transition Program was established to assist the older children from the CPCs with preparations for life outside the orphanage – job skills, independent living skills, and university level studies when appropriate.

ORPHANetwork was founded by youth group that visited Nicaragua on a mission trip in the mid 1990's. Early on in our ministry we were very focused on trips, until around 2010 when we began to look at poverty alleviation as providing a hand-up to the materially poor rather than a hand-out. Today our approach to global missions and serving teams is called SMART Missions®. SMART Missions® strengthens the vision and mission of our local partners by affirming and equipping the assets of the community rather than replacing or ignoring them.

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Note A – Nature of Organization and Summary of Significant Accounting Policies-continued

Preparing for Jobs

Our Job Preparedness segment includes Job Training and the After-School Education Program (ASEP). The Job Training program empowers young adults from our partner LCIs to learn a trade and gain employment. We are equipping young adults to compete for and win the in-demand job markets in welding, construction, garment manufacturing and tourism. Our vocational job training programs create an opportunity to land jobs that provide steady income and improve the quality of life for an entire family to break the cycle of poverty once and for all.

The ORPHANetwork ASEP builds upon the Platform of Health in our Local Church Initiatives. The purpose of the ASEP is to provide our children the skills and strategies needed to learn and advance in the public-school system and master the skills they will need to get future jobs. We also educate parents regarding their responsibility to participate in their children's development and educational success.

Leadership, Relationship and Spiritual Development is allocated to all programs and includes, but is not limited to, quarterly training on leadership principles that are relevant to local pastors and orphanage directors, equipping CPC caregivers with Trauma Informed Care Training, gathering leaders together to learn best practices from each other, Global Leadership Summit attendance, leadership seminars, theological studies & worship. At our core, we believe that Nicaraguans must solve the problems of Nicaragua, Leadership and Relationship Development of our Nicaraguan partners is one of our key initiatives to bring children to Christ and break cycles of poverty.

<u>Basis of Presentation</u>—Our financial statements have been prepared on the accrual basis of accounting using accounting principles generally accepted in the United States of America. Revenues and expenses are recognized and recorded when earned or incurred.

<u>Net Assets</u>—Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity

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Note A – Nature of Organization and Summary of Significant Accounting Policies-concluded

Use of Estimates—Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Revenue

Our major sources of funding are contributions from churches, foundations, and the general public. For the year ended December 31, 2018, approximately 33% of our support was obtained from our sixteen largest cash donors, with two churches, three nonprofit organizations/foundations, one business, and eight individuals accounting for approximately 6%, 7%, 3% and 17%, respectively. For the same year, we received approximately 28% of our support from two other non-profit organizations in the form of non-cash donations, primarily rice and formula for our feeding centers in Nicaragua.

Property and Equipment—Property and equipment is recorded at cost. Depreciation is provided over estimated useful lives of 3-7 years using the straight-line method. The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts, and any resulting gain or loss is recorded in the Statement of Activities. Maintenance and repairs are included as expenses when incurred.

Investments—Investments are carried at fair market value.

Income Taxes—We are generally exempt from federal income tax under section 501(c) (3) of the Internal Revenue Code. We did not have any unrelated business income that would be subject to income tax.

Donated Services—We receive a significant amount of donated services from unpaid volunteers who assist in fund-raising and program activities. No amounts have been recognized for these services in the Statement of Activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been met.

Expense Allocation—The costs of providing various programs have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentration of Credit Risk— Financial instruments which subject us to concentrations of credit risk consist primarily of uninsured cash balances. The cash balance as shown on the December 31, 2018 bank statement of the bank at which we hold most of our cash for operations exceeded the $250,000 FDIC limit by approximately $560,000. In addition, we hold approximately $466,000 in cash equivalents in the form of a bank sweep account with a brokerage. These funds are not FDIC insured. We consider the risk in both cases to be low due to the high credit quality of the institutions.

Cash and Cash Equivalents—We consider all cash and highly-liquid financial instruments with original maturities of three months or less to be cash and cash equivalents.

Note B – Property and Equipment

Property and equipment were comprised of the following as of December 31, 2018:

Office furnishings and equipment	$ 26,046
Vehicles, tractors, trailers, and other equipment	131,010
Total cost	157,056
Accumulated depreciation	(104,134)
Net property and equipment	$ 52,922

Note C – Intangible Assets

Intangible assets were comprised of the following as of December 31, 2018:

Website development costs	$ 10,551
Software development costs	91,280
Total cost	101,831
Accumulated amortization	(15,241)
Net intangible assets	$ 86,590

Note D – Investments

We held brokered certificates of deposit through our account with Charles Schwab as of December 31, 2018. All the certificates of deposit are $250,000 or less, and thus are covered fully by the FDIC, but because they are brokered, are subject to increases and decreases in market value based on the interest rate environment. This investment in brokered CDs is carried at fair value on the accompanying balance sheet. The CDs earn and pay interest periodically and will be cashed in for their full purchase prices if held to maturity and this is management's intent.

Accounting principles generally-accepted in the United States contain a fair value determination hierarchy that is based on three levels of inputs and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Level 1 valuations are based on quoted prices for identical securities in active markets; level 2 valuations are based on the fair value of similar securities, or on pricing models with all significant inputs derived from or corroborated by observable market prices for identical securities in markets with insufficient volume or infrequent transactions (less active markets); while level 3 valuations are based on significant unobservable inputs.

These CDs are considered level 1 valuation since there are quoted prices available for identical securities. As of December 31, 2018, the fair value of these CDs was $692,678.

Note E – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018:

Subject to expenditure for both a specified purpose and the passage of time:	
Preparing for Jobs	
After school education program	$116,667
Orphan Care	
Child protection centers	35,134
Scholarships	7,546
General orphan care	9,981
Platform of Health	
Local church initiatives	396,226
Nourish a child	25,000
Total net assets with donor restrictions	$590,554

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time specified by the donors as follows for the year ended December 31, 2018:

Subject to the passage of time only	$192,924
Subject to expenditure for a specified purpose	
Mission trips	65,390
Subject to both passage of time and expenditure for a specified purpose:	
Software development	27,720
Preparing for Jobs	
After school education program	200,000
Job training	30,000
Orphan Care	
Child protection centers	185,250
Scholarships	7,222
General orphan care	15,789
Platform of Health	
Local church initiatives	251,630
Total net assets released from donor restrictions	$975,925

Note F – Liquidity and Availability

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

Cash and cash equivalents	$1,371,920
Pledges receivable	395,936
Investments	692,678
Total	$2,460,534

As part of our liquidity management, we structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due for operations between four and six months in the future. Generally the net assets without donor restrictions are adequate to fund these obligations coming due, but our board has placed an internal designation of $560,000 on such net assets in order to ensure adequate funds are available. This internal designation of net assets without donor restrictions consists of a $500,000 general reserves, and $60,000 emergency and relief fund reserves. Although we do not intend to spend from our board designated reserves other than amounts appropriated for general expenditures as part of our annual budget approval and appropriation process, amounts from our board designated reserves would be made available if necessary.

We invest our cash in excess of our four to six months requirements in low risk investments (brokered CD's) as noted in Note D. As of December 31, 2018, all of these CD's have maturity dates within a year of the currently reported balance sheet date, and thus they are included in the above amounts.

The net assets with donor restrictions of $590,554 as of December 31, 2018, while restricted for a specified purpose, are also restricted to being spent in 2019, thus this entire amount has been included in the financial assts balance noted above.

Note G – Reclassification of Net Assets

After reviewing our system of classifying net assets, we discovered an error in our prior year net assets classifications. Our net assets with donor restrictions have been increased by $1,035,402 as of the beginning of 2018, and net assets without donor restrictions were decreased by the same amount. Net assets overall were not affected.