ORPHANetwork

FINANCIAL STATEMENTS

DECEMBER 31, 2019

ORPHANetwork

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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, 2019, 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, 2019, 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
July 6, 2020

THE ORPHANETWORK
STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS

CURRENT ASSETS	
Cash on hand and in bank	$ 1,943,016
Prepaid expenses	69,712
TOTAL CURRENT ASSETS	2,012,728
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	48,373
INVESTMENTS	470,993
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION	104,586
SECURITY DEPOSIT	1,118
TOTAL ASSETS	$ 2,637,798

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 16,448
Accrued employee benefits	20,000
Accrued salaries and payroll taxes	54,480
TOTAL CURRENT LIABILITIES	90,928
NET ASSETS	
Without donor restrictions	
Board designated emergency and relief fund	500,000
Board designated reserve fund	60,000
Undesignated	1,791,640
With donor restrictions	195,230
TOTAL NET ASSETS	2,546,870
TOTAL LIABILITIES AND NET ASSETS	$ 2,637,798

THE ORPHANETWORK
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	TOTAL
SUPPORT AND REVENUE			
Contributions and grants	$ 5,735,163	$ 476,632	$ 6,211,795
Special events	165,832	-	165,832
Interest earned	14,611	-	14,611
Unrealized gain on investments	13,315	-	13,315
Realized gain on investments	469	-	469
Net assets released from restriction	871,956	(871,956)	-
TOTAL SUPPORT AND REVENUE	6,801,346	(395,324)	6,406,022
EXPENSES			
Program services			
Job Preparedness	428,586	-	428,586
Orphan Care	1,206,534	-	1,206,534
Platform of Health	3,517,315	-	3,517,315
Total program services	5,152,435	-	5,152,435
Support services			
Management and general	851,861	-	851,861
Fundraising	360,305	-	360,305
Total support services	1,212,166	-	1,212,166
TOTAL EXPENSES	6,364,601	-	6,364,601
NET INCREASE (DECREASE) IN NET ASSETS	436,745	(395,324)	41,421
NET ASSETS, BEGINNING OF PERIOD	1,914,895	590,554	2,505,449
NET ASSETS, END OF PERIOD	$ 2,351,640	$ 195,230	$ 2,546,870

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

THE ORPHANETWORK
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services				Support Services		
	Job Preparednes	Orphan Care	Platform of Health	Total Program Services	Management and General	Fundraising	Total Expenses
Activities	$ 1,903	$ 18,474	$ 27,049	$ 47,426	$ -	$ 4,164	$ 51,590
Bank and merchant account fees	-	323	-	323	22,407	-	22,730
Clothing	-	26,890	-	26,890	-	-	26,890
Depreciation and amortization	8,523	10,373	510	19,406	30,559	1,886	51,851
Development and meetings	77,157	4,893	1,521	83,571	3,596	47	87,214
Education and training	40,810	534,874	29,318	605,002	-	-	605,002
Equipment	1,486	2,521	19,292	23,299	7,076	819	31,194
Food	14,422	231,545	2,658,014	2,903,981	-	-	2,903,981
General program costs	-	32,314	23,029	55,343	-	-	55,343
Health care resources	-	30,480	21,905	52,385	-	-	52,385
Insurance	-	745	-	745	18,825	-	19,570
Miscellaneous	-	2,231	1,952	4,183	12,420	2,096	18,699
Mission trips	-	32,010	-	32,010	-	-	32,010
Office and facility expenses	16,339	37,653	25,157	79,149	60,325	13,141	152,615
Professional fees	-	495	9,145	9,640	23,496	13,468	46,604
Promotional materials	-	-	-	-	-	25,379	25,379
Repairs and maintenance	-	28,079	3,474	31,553	17,761	-	49,314
Salaries, benefits, and payroll taxes	252,935	56,951	282,997	592,883	573,397	227,229	1,393,509
Scholarships	-	91,484	-	91,484	-	-	91,484
Security	-	-	1,338	1,338	17,982	-	19,320
Shipping, customs, and distribution	-	-	232,781	232,781	3,311	1,206	237,298
Special event costs	-	-	-	-	-	26,180	26,180
Special projects and cases	-	5,633	91,484	97,117	-	-	97,117
Telephone and utilities	989	41,315	761	43,065	30,631	2,095	75,791
In-country transportation	4,159	15,036	76,402	95,597	8,746	1,751	106,094
Travel	9,863	2,215	11,186	23,264	21,329	40,844	85,437
	$ 428,586	$ 1,206,534	$ 3,517,315	$ 5,152,435	$ 851,861	$ 360,305	6,364,601

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

THE ORPHANETWORK
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets during period	$	41,421
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Unrealized loss on investments		(13,315)
Depreciation and amortization		51,852
Changes in:		
Pledges receivable		395,936
Prepaid expenses		(64,536)
Accounts payable		4,494
Accrued salaries and payroll taxes		(14,458)
NET CASH PROVIDED BY OPERATING ACTIVITIES		401,394
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		(28,509)
Purchase of intangible assets		(36,790)
Maturity of investments		235,000
NET CASH PROVIDED BY INVESTING ACTIVITIES		169,701
NET INCREASE IN CASH FOR YEAR		571,095
CASH, BEGINNING OF YEAR		1,371,920
CASH, END OF YEAR	$	1,943,015

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.

Basis of Presentation—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.

Net Assets—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

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.

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

Concentrations of Revenue

Our major sources of funding are contributions from churches, foundations, and the general public. For the year ended December 31, 2019, approximately 33% of our support was obtained from our fifteen largest cash donors, with one church, six nonprofit organizations/foundations, one business, and seven individuals accounting for approximately 4%, 9%, 2% and 18%, respectively. For the same year, we received approximately 29% 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. As of December 31, 2019, we held no balances at one institution more than the $250,000 FDIC limit, but do exceed the limit on occasion. We consider the risk to be low due to the high credit quality of the institutions with which we hold our cash balances.

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	$ 41,759
Leasehold improvements	7,432
Vehicles, tractors, trailers, and other equipment	131,010
Total cost	180,201
Accumulated depreciation	(131,828)
Net property and equipment	$ 48,373

Note C – Intangible Assets

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

Website development costs	$ 21,203
Software development costs	117,418
Total cost	138,621
Accumulated amortization	(34,035)
Net intangible assets	$104,586

Note D – Investments

We held brokered certificates of deposit through our account with Charles Schwab as of December 31, 2019. 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, 2019, the fair value of these CDs was $470,993.

Note E – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2019:

Subject to the passage of time only	$ 3,200
Subject to expenditure for a specified purpose	
Preparing for Jobs	70,000
Orphan Care	72,400
Platform of Health	19,630
	162,030
Subject to expenditure for both a specified purpose and the passage of time:	
Platform of Health	30,000
Total net assets with donor restrictions	$195,230

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, 2019:

Subject to both passage of time and expenditure for a specified purpose:	
Preparing for Jobs	116,667
Orphan Care	52,661
Platform of Health	421,226
Total net assets released from donor restrictions	$590,554

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	$1,943,046
Investments	470,993
Total	$2,414,039

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 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, 2019, all 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 $195,230 as of December 31, 2019, while restricted for a specified purpose, are also expected to be spent in 2020, thus this entire amount has been included in the financial assts balance noted above.

Note G – Impacts of COVID-19

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements resulting from this uncertainty. In response to the pandemic and to the state of Virginia's guidelines, the US operations team started working remotely in March, keeping all US-based functions operational during the pandemic. The global pandemic influenced Nicaragua starting mid-April. Program services to the children and communities continued in Nicaragua while our team and partners utilized WHO standards for social distancing. The team in Nicaragua used available technologies to continue providing support services through the pandemic, including the nourishing lives, After-School Education Program, Healthy Beginnings, and Orphan Care as well as other programs. All programs have been operational through the pandemic, except for the After-School Education Program, which took a brief hiatus that paralleled the Nicaragua government orders for the temporary suspension of schools. As of July, the US office is fully functioning while the Nicaragua office is balancing returning personnel back to the office from virtual work.

In addition, in response to the Covid-19 pandemic, we obtained an SBA Payroll Protection Program loan of $104,300. This loan was funded on April 23, 2020, and may be forgiven if the funds are spent in accordance with SBA guidelines, which in general call for at least 60% of the funds to be spent on payroll in the either the 8-week period following the funding date. We expect that the guidelines will be met, and the loan will be forgiven.

Note H – Consideration of Subsequent Events

Our management evaluated subsequent events through July 6, 2020, the date the financial statements were available to be issued, for purposes of determining whether such events required recordation or disclosure in the accompanying financial statements.