

HOPE UNLIMITED FOR CHILDREN

FINANCIAL STATEMENTS

Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
Hope Unlimited for Children
Jefferson City, Tennessee

We have audited the accompanying financial statements of Hope Unlimited for Children (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

To the Board of Directors and Management of
Hope Unlimited for Children
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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 above present fairly, in all material respects, the financial position of Hope Unlimited for Children as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Purkey, Carter, Compton, Swann & Carter, PLLC

Morristown, Tennessee
July 17, 2015

HOPE UNLIMITED FOR CHILDREN
STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS

CURRENT ASSETS

Cash - operations	\$ 233,549
Prepaid expenses	<u>18,239</u>

TOTAL CURRENT ASSETS 251,788

PROPERTY AND EQUIPMENT, Net 5,039

LONG-TERM INVESTMENTS

Donated Real Estate	<u>500,000</u>
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TOTAL ASSETS \$ 756,827

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 31,836
Note payable, current portion	<u>28,776</u>

TOTAL CURRENT LIABILITIES 60,612

LONG-TERM DEBT

Note payable, net of current portion	<u>210,663</u>
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TOTAL LIABILITIES 271,275

NET ASSETS

Unrestricted net assets, undesignated	<u>485,552</u>
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TOTAL LIABILITIES AND NET ASSETS \$ 756,827

HOPE UNLIMITED FOR CHILDREN
STATEMENT OF ACTIVITIES
Year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Operating activities:			
Contribution income	\$ 1,348,389	\$ -	\$ 1,348,389
Investment loss	(492)	-	(492)
Net assets released from restrictions			
Expiration of time restrictions	<u>500,000</u>	<u>(500,000)</u>	<u>-</u>
 TOTAL REVENUES, GAINS AND OTHER SUPPORT	 1,847,897	 (500,000)	 1,347,897
 EXPENSES			
Program services	1,075,668	-	1,075,668
Supporting services			
Management and general	119,383	-	119,383
Fundraising	<u>98,733</u>	<u>-</u>	<u>98,733</u>
 TOTAL EXPENSES	 <u>1,293,784</u>	 <u>-</u>	 <u>1,293,784</u>
 CHANGE IN NET ASSETS	 554,113	 (500,000)	 54,113
 NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	 <u>(68,561)</u>	 <u>500,000</u>	 <u>431,439</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 485,552</u>	 <u>\$ -</u>	 <u>\$ 485,552</u>

HOPE UNLIMITED FOR CHILDREN
STATEMENT OF CASH FLOWS
Year ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 54,113
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,329
Decrease (increase) in operating assets:	
Accounts receivable	4,964
Prepaid expenses	(2,173)
Increase (decrease) in operating liabilities:	
Accounts payable	(7,996)
Accrued retirement plan contribution	<u>(2,992)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	48,245
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal paid on note payable	(212,927)
Additions to note payable	<u>226,000</u>
NET CASH FROM FINANCING ACTIVITIES	<u>13,073</u>
NET INCREASE IN CASH	61,318
BEGINNING CASH	<u>172,231</u>
ENDING CASH	<u>\$ 233,549</u>
SUPPLMENTAL DISCLOSURES	
Interest paid	<u>\$ 11,800</u>

HOPE UNLIMITED FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hope Unlimited for Children (Hope) is a not-for-profit corporation incorporated under the laws of the State of California in 1991. The Organization provides assistance to its affiliated organizations, Associacao Hope Unlimited do Brazil (HUB) and Casa dos Menores de Campinas (CMC), which are Brazilian nonprofit organizations engaged in providing assistance and protection to displaced or homeless children and teenagers in Campinas, State of Sao Paulo, and Cariacica, State of Espirito Santo, both in Brazil.

Hope is affiliated with HUB and CMC; however, the activities of the affiliates are not included in these financial statements because Hope does not control the affiliates as defined by the Related Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Beginning in late 2014, Hope Institute was introduced as a new program of Hope Unlimited for Children. This is the beginning of a plan to reach 153 million at risk children worldwide. Hope Institute's mission is to positively impact the lives of orphan and mortal-risk-children living in residential care centers by providing training and mentoring in best-practices methodologies and providing advocacy to increase acceptance, recognition, and support for these centers within their respective countries and communities.

Basis of Accounting

The financial statements of Hope Unlimited for Children have been prepared on the full accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board, Accounting Standards Codification (ASC) Topic 958 *Not-For-Profit Entities*. Under ASC Topic 958, Hope Unlimited for Children is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Contributions

Hope Unlimited for Children accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in ASC Topic 958. In accordance with ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

HOPE UNLIMITED FOR CHILDREN
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December 31, 2014

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Advertising

Hope Unlimited for Children expenses the cost of advertising as it is incurred. Advertising expense for the year ended December 31, 2014, was \$6,490.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when conditions on which they depend are substantially met. The Organization had no promises to give at December 31, 2014.

Hope Unlimited for Children uses the allowance method to determine uncollectible promises to give, if necessary. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets.

Functional Expenses

The costs of providing program and supporting activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated between Program Services and Supporting Services based on an analysis of those costs identifiable with a specific function or based on an analysis of personnel time and space utilized for the related service.

Income Tax Status

Hope Unlimited for Children is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Hope Unlimited for Children considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at December 31, 2014.

HOPE UNLIMITED FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Investments

In accordance with ASC Topic 958, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. It also includes commercial real estate.

Subsequent Events

The Organization evaluated subsequent events through July 17, 2015, the date the financial statements were available to be issued.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014, consist of the following:

Furniture and equipment	\$ 25,571
Less accumulated depreciation	<u>(20,532)</u>
Net property and equipment	<u>\$ 5,039</u>

Depreciation expense for the year ended December 31, 2014, was \$2,329.

NOTE C – NOTE PAYABLE

Hope Unlimited for Children has a note payable at December 31, 2014, of \$239,439, payable to Christian Community Credit Union, and is secured by the commercial real estate held as a long-term investment. The note is payable in monthly payments of 1.5% of the outstanding balance at an annual percentage rate of 5.0%. The note matures in May 2016.

Future maturities of long-term debt are as follows:

<u>For the years ending December 31,</u>	
2015	\$ 28,776
2016	<u>210,663</u>
	<u>\$ 239,439</u>

HOPE UNLIMITED FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE D – FAIR VALUE MEASUREMENTS

The Organization's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 and 3 inputs were available to the Organization.

Level 2 Fair Value Measurements

The fair value of the commercial real estate is determined using the valuation by the Internal Revenue Service to the donor of the property for income tax deduction purposes.

The following table presents the fair value measurement of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014.

	Significant Other Observable Inputs (Level 2)
Commercial real estate	<u>\$ 500,000</u>

NOTE E – RETIREMENT PLAN

In March 2006, Hope Unlimited for Children established a tax deferred retirement plan under Section 401(k) of the Internal Revenue Code covering all eligible employees. The Organization makes a safe harbor contribution equal to 5% of the employee's compensation. The retirement expense totaled \$16,068 in 2014.

NOTE F – RELATED PARTY TRANSACTIONS

Program activities included disbursements made directly to HUB and CMC, and for the year ended December 31, 2014, totaling \$511,579, of which \$3,721 for reimbursements is included in accounts payable. Disbursements made to HUB and CMC are subject to local

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NOTES TO FINANCIAL STATEMENTS
December 31, 2014

currency fluctuations. The Organization may increase or decrease payments to HUB and CMC to maintain a consistent level of support.

NOTE G – LEASES

Hope leases office space in Jefferson City, Tennessee, on a month-to-month basis for \$450 per month, and leases office space in New Jersey for the CEO on a month-to-month basis for \$250 per month. The Organization also rented a storage unit during the year. Rent expense for the year ended December 31, 2014, was \$8,882.

NOTE H – UNCERTAIN TAX POSITIONS

The Organization follows the guidance of FASB ASC 740, Accounting for Uncertainty in Income Taxes, which provides guidance on accounting for uncertainty in income taxes recognized in an Organization's financial statements. The guidance prescribes a recognition measurement of a tax position taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. As of December 31, 2014, the Organization had no uncertain tax positions that qualify for the recognition or disclosure in the financial statements. Generally, the Organization is no longer subject to examination by federal, state, or local taxing authorities for years beyond three years.