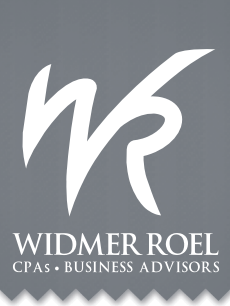


**FRIENDS OF CHIMBOTE**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**WITH INDEPENDENT AUDITOR'S REPORT**



4220 31st Avenue S.  
Fargo, ND 58104-8725

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**Friends of Chimbote**  
Fargo, North Dakota

### *Qualified Opinion*

We have audited the financial statements of the **Friends of Chimbote** (a North Dakota nonprofit corporation), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of **Friends of Chimbote** as of December 31, 2021, 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.

### *Basis for Qualified Opinion*

The Organization instructed us not to perform any procedures related to the manifest container, in-kind donations. As a result of this matter, we were unable to obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base our opinion over the manifest container, in-kind donations, included in the Statement of Activities and Changes in Net Assets.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Friends of Chimbote** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Friends of Chimbote's** ability to continue as a going concern for one year after the date that the financial statements are issued.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Friends of Chimbote's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Friends of Chimbote's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Fargo, North Dakota  
October 10, 2022

**FRIENDS OF CHIMBOTE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2021**

**ASSETS**

---

**CURRENT ASSETS**

Cash and cash equivalents	\$ 257,636
Contributions receivable	75,464
Prepaid expenses	<u>4,769</u>

Total current assets 337,869

**INVESTMENTS**

727,812

Total assets \$ 1,065,681

**LIABILITIES AND NET ASSETS**

---

**CURRENT LIABILITIES**

Accounts payable	\$ 9,818
Accrued payroll liabilities	<u>11,893</u>

Total current liabilities 21,711

**NET ASSETS**

Without donor restrictions	
Board designated	804,118
Undesignated	<u>239,852</u>

Total net assets 1,043,970

Total liabilities and net assets \$ 1,065,681

**FRIENDS OF CHIMBOTE**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**CHANGES IN NET ASSETS**

Support and revenue		
General mission contributions		\$ 1,089,438
Designated funds contributions		256,324
Contributions of container goods		463,566
Contributions of investments		72,210
Contributions of services		24,000
Investment income		110,202
Other income		<u>35,430</u>
Total support and revenue		<u>2,051,170</u>
 Expenses		
Program services		1,495,041
Management and general		99,272
Fundraising		<u>131,740</u>
Total expenses		<u>1,726,053</u>
Change in net assets		<u>325,117</u>
 <b>NET ASSETS, BEGINNING OF YEAR</b>		 <u>718,853</u>
 <b>NET ASSETS, END OF YEAR</b>		 \$ <u><u>1,043,970</u></u>

**FRIENDS OF CHIMBOTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Mission Visit</u>	<u>Container</u>	<u>Other Programs</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	
Salaries and wages	\$ 7,484	\$ -	\$ -	\$ 51,608	\$ 105,291	\$ 164,383
Payroll taxes	572	-	-	3,948	8,055	12,575
Container shipping expense	-	18,796	-	-	-	18,796
Fundraising	-	-	-	-	17,327	17,327
General and administrative	-	-	-	10,404	-	10,404
Goods and supplies - Peru	-	463,566	-	-	-	463,566
Grants	-	-	989,023	-	-	989,023
Miscellaneous	-	-	-	42	-	42
Professional services	-	-	-	7,989	-	7,989
Rent expense	-	15,600	-	19,077	-	34,677
Repair and maintenance	-	-	-	6,204	-	6,204
Travel and entertainment	-	-	-	-	1,067	1,067
	<u>\$ 8,056</u>	<u>\$ 497,962</u>	<u>\$ 989,023</u>	<u>\$ 99,272</u>	<u>\$ 131,740</u>	<u>\$ 1,726,053</u>

See Notes to Financial Statements

**FRIENDS OF CHIMBOTE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 325,117
Adjustments to reconcile net change in net assets to net cash provided by operating activities	
Investment income, net	(109,794)
Contributions of investments	(32,770)
Extinguishment of debt - Paycheck Protection Program	(34,500)
Changes in assets and liabilities	
Contributions receivable	(17,550)
Prepaid expenses	(177)
Accounts payable	5,055
Accrued payroll liabilities	2,170
	<u>137,551</u>
Net cash provided by operating activities	<u>137,551</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(319,317)
Proceeds from sale of investments	<u>92,166</u>
Net cash used in investing activities	<u>(227,151)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(89,600)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>347,236</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 257,636</u></u>

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

Friends of Chimbote (the “Organization”) located in Fargo, North Dakota, is a faith-based organization dedicated to supporting programs that improve and transform the lives of the poor of Chimbote, Peru, by primarily supporting the operations of Asociación Civil de Apoyo Familiar (“ACAF”), which is a nonprofit organization located in Peru. The Organization’s operations are funded through contributions from individual donors and various organizations.

***Basis of Presentation***

The financial statements of the Organization have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to readers.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board *Accounting Standards Codification* (“ASC”), which requires the Organization to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

*Net assets without donor restrictions:* Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Board-designated net assets are without donor restrictions and are reported as a part of the net assets without donor restriction class.

*Net assets with donor restrictions:* Net assets subject to donor-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 that resources are maintained in perpetuity. 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 statement of activities.

***Cash and Cash Equivalents***

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Excluded from the definition of cash equivalents are such amounts that have been designated by the Board for investments.

***Concentrations of Credit Risk***

The Organization maintains cash balances at a local financial institution. At times, the Organization’s bank balances may exceed the federally insured limits. At December 31, 2021, the Organization’s uninsured cash balance totaled \$18,663.

***Revenue Recognition***

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are



**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

substantially met. Contributions are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated tie restriction ends) or purpose restriction is accomplished) in the reporting period in which revenue is recognized.

All promises to give were considered collectible and receivable within one year at December 31, 2021, and no allowance for uncollectible amounts was established.

***Investments***

Investments are stated at fair value in the statement of financial position, with realized and unrealized gains and losses included in the statements of activities and changes in net assets. Investment income and losses represent the gains and losses, dividends and interest income, and net of fees from investments.

Investments acquired by donation are recorded at their fair value at the date of the gift. The Organization's policy is to liquidate all donations of investments as soon as possible after the donation has been received.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair value of the individual investments for the year, or since the acquisition date, if acquired during the year. The average cost method is used to determine the cost of the investments.

The Organization's investments are exposed to various risks, such as fluctuation in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

***Cash Surrender Value of Life Insurance Policies***

The Organization is the beneficiary under flexible premium adjustable life insurance policy. The policy is valued based on the cash surrender value less applicable surrender penalties and outstanding loans. In 2021, the policy has no cash surrender value and has enacted the "no lapse guarantee endorsement" which allows the policy to stay in force until 2023 when either payments will need to be made or the Organization will let the policy lapse.

***Donated Assets and Services***

Assets received through donations are recorded and reflected in the accompanying financial statements at their fair values at the date they were received. Donated services are recorded at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses.

The Organization collected a variety of in-kind contributions of items, such as personal hygiene items, baby supplies, school supplies, and medical equipment and supplies. These goods are shipped to Peru in containers on an annual basis. The contributions of these goods are included as contributions of container goods and program service expense in the accompanying statements of activities and changes in net assets, and functional expenses.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

The Organization also received contributions of rent and contributions of storage space that are included as contributions of services and related expenses in the accompanying statement of activities and changes in net assets.

***Income Taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. This exempt status will continue in effect provided that the Organization does not change its purpose, character, or method of operation. The Organization files income tax returns in the U.S. federal jurisdiction. The Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

***Functional Allocation of Expenses***

The statement of functional expenses reports certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated between program services and supporting services include: salaries, payroll taxes, and employee benefits, which are allocated on the basis of estimates of time and effort.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

***Subsequent Events***

Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued.

**NOTE 2 – REVENUE RECOGNITION AND CONTRIBUTIONS**

The Organization has held special events in the past which would include both contributions and exchange transactions. Because the Organization has no revenue from special events in the current year and thus no revenue streams based on contracts, ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" has no effect on the financial statements. Furthermore, these past special events have contracts with a duration of less than one year, so the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and, therefore, would not be required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of any reporting period.

The Organization's revenue streams are all considered contributions or donations and fall under FASB ASC 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**NOTE 3 – LIQUIDITY AND AVAILABILITY**

The following represents the Organization’s financial assets as of December 31, 2021:

Assets available for use within one year.	
Cash and cash equivalents	\$ 257,636
Contributions receivable	75,464
Investments	<u>727,812</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>1,060,912</u></u>

The Organization has financial assets available within one year of the financial position date consisting of cash, contributions receivable, and investments. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date.

**NOTE 4 – INVESTMENTS**

Investments consisted of the following at December 31, 2021:

Money market fund	\$ 61,456
Mutual funds	661,234
Common stock	<u>5,122</u>
	\$ <u><u>727,812</u></u>

Investment returns consisted of the following at December 31, 2021:

Interest and dividends	\$ 8,746
Realized gain	59
Change in unrealized appreciation (depreciation)	<u>101,397</u>
	\$ <u><u>110,202</u></u>

Investment fees totaled \$213 for the year ended December 31, 2021.

**NOTE 5 – FAIR VALUE MEASUREMENTS**

The three levels of the fair value hierarchy in accordance with ASC 820 *Fair Value Measurements* are described below:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.

**Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability.

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

Following is a description of the valuation methodologies used for assets measured at fair value.

**Money Market Funds and Mutual Funds** – Valued at the net asset value (“NAV”) of shares held by the Organization at year-end. Funds held by the Organization are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The funds held by the Organization are deemed to be actively traded.

**Common Stocks** – Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While 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 following table sets forth by level, within the fair value hierarchy, the Organization’s investments at fair value as of December 31, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 61,456	\$ 61,456	\$ -	\$ -
Mutual funds - equity				
Domestic small-cap equity	99,994	99,994	-	-
Domestic mid-cap equity	108,767	108,767	-	-
Domestic large-cap equity	313,579	313,579	-	-
Domestic large-cap growth	58,585	58,585	-	-
Real estate	80,309	80,309	-	-
Common stock	<u>5,122</u>	<u>5,122</u>	<u>-</u>	<u>-</u>
	<u>\$ 727,812</u>	<u>\$ 727,812</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 6 – PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS**

In January 2021, the full amount of the Paycheck Protection Program loan of \$34,738 was forgiven under the CARES Act.

**NOTE 7 – DESIGNATED NET ASSETS**

The Organization’s Board designated net assets consisted of the following at December 31, 2021:

Education	\$ 10,713
Endowment fund for contingencies	722,690
Mission group expenses	52,515
Social programs	<u>18,200</u>
	<u>\$ 804,118</u>

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**NOTE 8 – BOARD-DESIGNATED ENDOWMENT FUND**

The Organization has an endowment fund that was designated by the Board to be used as a long-term contingency fund. As required by the accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions. The Organization’s endowment fund does not include any donor-restricted funds.

*Interpretation of Relevant Law*

The Board of Directors has determined that the Organization’s contributions are subject to the terms of its designated funds policies. Under the terms of the Organization’s designated funds policies, the Board of Directors retains the final authority to determine the use of the donor contributions. As a result, all contributions are classified as net assets without donor restrictions for financial statement purposes.

*Spending Policy*

The endowment fund is a Board designated fund, and, as such, is subject to appropriations of funds at the will of the Board. Currently, any contributions of investment securities designated by the Board for the endowment fund are converted to cash equivalents and appropriated for purposes advised by the donors or determined by the Board. Funds held in the endowment fund are appropriated for expenditures as determined necessary by the Board on as needed basis. Management fees are incorporated into the price per share for each mutual fund in the endowment.

*Return Objectives and Risk Parameters*

The Organization has adopted an investment policy that attempts to preserve the purchasing power of the endowment fund after providing a source of income for the Organization. The secondary investment objective is the growth of the endowment funds. The objective is based on a ten-year investment horizon. The desired investment objective for the portfolio is to achieve a long-term real rate of return on assets that is approximately 5% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the fund has been based upon an analysis of historical returns.

Changes in endowment net assets are as follows as of December 31, 2021:

Endowment net assets, December 31, 2020	\$ 353,062
Contributions	328,104
Investment income	101,401
Amounts appropriated for expenditure	<u>(59,877)</u>
Endowment net assets, December 31, 2021	<u>\$ 722,690</u>

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The Organization conducts its charitable activities in Peru through a local nonprofit organization ACAF, which is a separate legal entity. The Organization provides most of the ACAF’s funding and commits annually to a certain amount to be disbursed. Management considered the relationship with ACAF and determined that consolidation of ACAF’s financial records in the Organization’s financial statements is not permitted due to the fact that no controlling financial interest through ownership of a majority voting interest or economic interest exists. Economic interest, as defined in the professional standards, would occur if ACAF held or used significant resources to produce income or provide services for the Organization or if ACAF was responsible for the Organization’s liabilities.

Amounts contributed to ACAF by the Organization were as follows for the year ended December 31, 2021:

Monetary contributions	\$ 989,023
Contributions of goods	<u>463,566</u>
	<u>\$ 1,452,589</u>

Contributions received by the Organization from the Board members totaled \$102,533 during the year ended December 31, 2021, respectively. Contribution receivables from the Board members totaled \$12,535 for the year ended December 31, 2021, respectively.

**NOTE 10 – OPERATING LEASE**

In 2015, the Organization leased an office space under an operating lease with monthly payments of \$800 through October 2015. Since November 2015, the Organization continues to rent the office space on a month-to-month basis for \$800 a month. The office space rental is valued at \$1,500 a month and the Organization included the donated portion of the rent of \$8,400 in contributions of services and management and general expense in the statement of activities and changes of net assets.

The Organization also leases warehouse space for its donated goods storage free of charge under an annually renewable lease agreement. Fair value of storage space donated to the Organization was \$15,600 during the year ended December 31, 2021, and was included in contributions of services and program services expense in the statements of activities and changes of net assets.

The Organization also leases a copier under a sixty-month lease that will end in December 2024.

Rental expense totaled \$34,677 for the year ended December 31, 2021.

Minimum future payments required by operating leases are as follows:

2022	\$ 1,274
2023	1,274
2024	<u>1,274</u>
	<u>\$ 3,822</u>