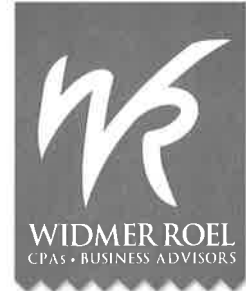


**FRIENDS OF CHIMBOTE**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**WITH INDEPENDENT AUDITOR'S REPORT**



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the **Friends of Chimbote** (a North Dakota nonprofit corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

The Organization's 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 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 audits 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 above present fairly, in all material respects, the financial position of the **Friends of Chimbote** as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fargo, North Dakota  
June 19, 2015

**FRIENDS OF CHIMBOTE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 589,726	\$ 1,073,499
Contributions receivable	4,225	-
Prepaid expenses	2,188	-
Total current assets	596,139	1,073,499
<b>INVESTMENTS</b>	932,904	876,991
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	110,570	123,642
Total assets	\$ 1,639,613	\$ 2,074,132
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 769	\$ 11,343
Accrued payroll liabilities	10,931	11,774
Total current liabilities	11,700	23,117
<b>NET ASSETS</b>		
Unrestricted		
Board designated	1,055,965	1,333,000
Undesignated	571,948	718,015
Total net assets	1,627,913	2,051,015
Total liabilities and net assets	\$ 1,639,613	\$ 2,074,132

**FRIENDS OF CHIMBOTE**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>SUPPORT AND REVENUE</b>		
General mission contributions	\$ 958,914	\$ 1,038,827
Designated funds contributions	251,147	705,445
Contributions of container goods	567,098	563,719
Contributions of investments	31,742	87,901
Contributions of services	12,600	12,000
Contributions - special events	225,074	248,788
Special event revenue	17,500	41,150
Investment income	44,521	63,853
Other income	670	627
	<u>2,109,266</u>	<u>2,762,310</u>
<b>EXPENSES</b>		
Salaries and wages	173,403	121,036
Payroll taxes	14,373	9,259
Employee benefits	2,236	8,533
Costs of direct benefits to donors - special events	14,772	24,855
Grants	1,585,580	1,569,536
Grants - noncash	567,098	563,719
Fundraising	35,820	58,265
General and administrative	35,655	37,207
Investment fees	7,241	8,466
Other operating expenses	1,601	4,870
Professional services	25,326	35,752
Rent expense	21,390	16,866
Repair and maintenance expenses	5,642	4,161
Travel and entertainment	42,231	35,776
	<u>2,532,368</u>	<u>2,498,301</u>
<b>CHANGE IN NET ASSETS</b>	(423,102)	264,009
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,051,015</u>	<u>1,787,006</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,627,913</u>	<u>\$ 2,051,015</u>

**FRIENDS OF CHIMBOTE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (423,102)	\$ 264,009
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities		
Unrealized (gain) loss on investments	169,946	(25,473)
Realized gain on investments	(189,111)	(26,456)
Contributions of investments	(31,742)	(87,901)
Changes in assets and liabilities		
Contributions receivable	(4,225)	-
Prepaid expenses	(2,188)	-
Cash surrender value of life insurance	13,072	(15,937)
Accounts payable	(10,574)	8,943
Accrued payroll liabilities	(843)	3,336
	<u>(478,767)</u>	<u>120,521</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(947,023)	(23,627)
Proceeds from sale of investments	942,017	108,373
	<u>(5,006)</u>	<u>84,746</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(483,773)	205,267
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,073,499</u>	<u>868,232</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 589,726</u>	<u>\$ 1,073,499</u>

**FRIENDS OF CHIMBOTE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At December 31, 2014 and 2013, there were no temporarily or permanently restricted net assets.

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, unless the restriction expires in the fiscal year. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports that support as unrestricted.

***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 exceed the federally insured limits. At December 31, 2014 and 2013, the Organization’s uninsured cash balances totaled \$314,970 and \$835,582, respectively.

***Contributions Receivable***

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue and as assets, decreases of liabilities, or expenses depending on the form of the benefits received in the period received. Conditional promises to give are recognized when the conditions on which they depend on are substantially met. All promises to give were considered collectible and receivable within one year at December 31, 2014, and no allowance for uncollectible amounts was established. There were no promises to give at December 31, 2013.

*(Continued)*

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

***Investments***

Investments are stated at fair value in the statements of financial position, with realized and unrealized gains and losses included in the statements of activities and changes in net assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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 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***

The Organization is the beneficiary under a flexible premium adjustable life insurance policy. The policy is valued at cash surrender value, which is the accumulation value less applicable surrender penalties and which would be received by the Organization in case the policy was surrendered at year-end.

***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 collects 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 as grants – noncash in the accompanying statements of activities and changes in net assets.

The Organization also receives contributions of rent and shipping services that are reflected as contributions of services and related expenses in the accompanying statements 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 is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

*Functional Allocation of Expenses*

Expenses have been allocated on a functional basis between program and supporting services based on the analysis of personnel time devoted to various activities.

*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.

*Reclassifications*

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**NOTE 2 – INVESTMENTS**

Investments consisted of the following at December 31, 2014:

	<u>Cost</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Fair Value</u>
Money market fund	\$ 928,324	\$ -	\$ 928,324
Corporate bonds	4,580	-	4,580
	<u>\$ 932,904</u>	<u>\$ -</u>	<u>\$ 932,904</u>

Investments consisted of the following at December 31, 2013:

	<u>Cost</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Fair Value</u>
Cash equivalents	\$ 43,790	\$ -	\$ 43,790
Fixed income mutual funds	226,383	(1,410)	224,973
Equities	183,731	139,656	323,387
Domestic equity mutual funds	78,479	22,435	100,914
Exchange traded fund - preferred stocks	40,960	(4,130)	36,830
Mixed world allocation mutual funds	132,582	14,515	147,097
	<u>\$ 705,925</u>	<u>\$ 171,066</u>	<u>\$ 876,991</u>

(Continued)



**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31:

	<b>2014</b>	<b>2013</b>
Interest and dividends	\$ 25,356	\$ 11,924
Realized gain	189,111	26,456
Change in unrealized appreciation (depreciation)	(169,946)	25,473
	\$ 44,521	\$ 63,853

Investment fees totaled \$7,241 and \$8,466 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

Professional standards state that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, they establish a fair value hierarchy that prioritizes the information used to develop those assumptions. The three levels of the fair value hierarchy are described below:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2* - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of an input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

*Money Market Funds, Mutual Funds and Exchange-Traded 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.

*Corporate Bonds* – Valued at the most recent traded prices reported on the active market, on which the individual securities are traded.

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

(Continued)

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

*Cash Surrender Value of Life Insurance* – Valued at the estimated amounts of payout from the insurance company in the event the policy is voluntarily terminated before its maturity, net of surrender charges.

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. Furthermore, 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, 2014:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 928,324	\$ 928,324	\$ -	\$ -
Corporate bonds	4,580	-	4,580	-
Cash surrender value of life insurance	<u>110,570</u>	<u>-</u>	<u>110,570</u>	<u>-</u>
	<u>\$ 1,043,474</u>	<u>\$ 928,324</u>	<u>\$ 115,150</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2013:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 43,790	\$ 43,790	\$ -	\$ -
Fixed income mutual funds				
Short-term bond	78,922	78,922	-	-
Intermediate-term bond	107,411	107,411	-	-
Preferred stocks	38,640	38,640	-	-
Equities				
Common stocks	323,387	323,387	-	-
Domestic equity mutual funds				
Large growth	65,069	65,069	-	-
Foreign large blend	35,845	35,845	-	-
Exchange traded fund	36,830	36,830	-	-
Mixed world allocation mutual funds	147,097	147,097	-	-
Cash surrender value of life insurance	<u>123,642</u>	<u>-</u>	<u>123,642</u>	<u>-</u>
	<u>\$ 1,000,633</u>	<u>\$ 876,991</u>	<u>\$ 123,642</u>	<u>\$ -</u>

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 4 – DESIGNATED NET ASSETS**

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

	2014	2013
Development budget - events	\$ 6,132	\$ 36,132
Education	58,301	67,935
Endowment fund	928,324	876,991
EOC/CHOI Transformation	1,570	14,579
Gala sponsored Peru trip	-	5,000
Parish programs	-	710
Medical programs	50	1,780
Mission group expenses	-	5,715
Mission group projects	7,003	5,540
Social programs	40,485	133,018
Tim Killeen memorial fund	7,600	7,600
Wimbush Center phase II	-	178,000
Thorson fund	6,500	-
	\$ 1,055,965	\$ 1,333,000

**NOTE 5 – 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 unrestricted net assets 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 made by the donors into the fund are converted to cash equivalents and appropriated for purposes advised by the donors or general operating needs.

In addition, 1% of the value of the endowment fund is paid to the investment fund advisor annually in return for investment management services provided.

*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

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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:

Endowment net assets, December 31, 2012	\$ 821,907
Contributions	99,907
Investment income	38,077
Net appreciation	25,473
Amounts appropriated for expenditure	<u>(108,373)</u>
Endowment net assets, December 31, 2013	876,991
Contributions	951,610
Investment income	24,928
Net depreciation	19,165
Amounts appropriated for expenditure	<u>(944,370)</u>
Endowment net assets, December 31, 2014	<u>\$ 928,324</u>

**NOTE 6 – FUNCTIONAL EXPENSE ALLOCATION**

The costs of providing various programs and other activities have been summarized on a natural basis in the statements of activities. The functional classification of major classes of program services and supporting activities are as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Program services	\$ 2,152,678	\$ 2,133,255
Supporting services		
Management and general	189,558	141,082
Fundraising	175,360	199,109
Costs of direct benefits to donors	<u>14,772</u>	<u>24,855</u>
	<u>\$ 2,532,368</u>	<u>\$ 2,498,301</u>

**NOTE 7 – 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.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

Amounts contributed to ACAF by the Organization were as follows for the years ended December 31:

	<b>2014</b>	<b>2013</b>
Monetary contributions	\$ 1,507,644	\$ 1,513,903
Contributions of goods	567,098	563,719
	\$ 2,074,742	\$ 2,077,622

In addition, the Organization receives travel agency services from a travel agency owned by a Board member. The fees for the travel agency services provided to the Organization are generally waived. No amounts related to services received are recorded in the accompanying statements of activities and changes of net assets.

Contributions received by the Organization from the Board members totaled \$76,936 and \$62,419 during the years ended December 31, 2014 and 2013, respectively. There were no contributions receivable from the Board members at December 31, 2014 and 2013.

**NOTE 8 – OPERATING LEASE**

The Organization leases office space under an operating lease that calls for monthly payments of \$800 through November 2015. 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 \$12,000 and \$12,000 during the years ended December 31, 2014 and 2013, and was included in noncash contributions and rent expense in the statements of activities and changes of net assets.

Rental expense totaled \$21,390 and \$16,866 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 9 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 19, 2015, which is the date the financial statements were available to be issued.