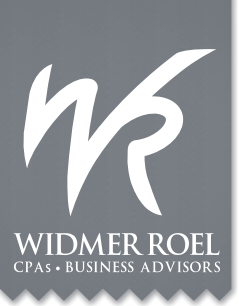


FRIENDS OF CHIMBOTE

**FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 statement of financial position as of December 31, 2020, 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.

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 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 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.

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.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2020, and the changes in net assets for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "William R. Rouse". The signature is written in a cursive style with a large initial "W".

Fargo, North Dakota
October 11, 2021

FRIENDS OF CHIMBOTE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 347,236
Contributions receivable	57,915
Prepaid expenses	<u>4,592</u>

Total current assets 409,743

INVESTMENTS

358,097

Total assets \$ 767,840

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 4,764
Accrued payroll liabilities	9,723
Notes payable	<u>34,500</u>

Total current liabilities 48,987

NET ASSETS

Without donor restrictions	
Board designated	422,634
Undesignated	<u>296,219</u>

Total net assets 718,853

Total liabilities and net assets \$ 767,840

FRIENDS OF CHIMBOTE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020

CHANGES IN NET ASSETS

Support and revenue	
General mission contributions	\$ 887,104
Designated funds contributions	222,551
Contributions of container goods	208,054
Contributions of investments	91,774
Contributions of services	26,929
Investment income	45,321
Other income	<u>601</u>
Total support and revenue	<u>1,482,334</u>
Expenses	
Program services	1,161,064
Management and general	114,897
Fundraising	<u>128,571</u>
Total expenses	<u>1,404,532</u>
Change in net assets	<u>77,802</u>
NET ASSETS, BEGINNING OF YEAR	<u>641,051</u>
NET ASSETS, END OF YEAR	<u><u>\$ 718,853</u></u>

FRIENDS OF CHIMBOTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<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	\$ 10,997	\$ -	\$ -	\$ 58,059	\$ 95,276	\$ 164,332
Payroll taxes	841	-	-	4,442	7,289	12,572
Grants	137,663	5,108	755,467	-	-	898,238
Goods and supplies - Peru	-	208,054	-	-	-	208,054
Mission groups	19,016	-	-	-	-	19,016
Fundraising	-	-	-	-	20,748	20,748
General and administrative	-	-	-	18,098	-	18,098
Professional services	-	-	-	9,688	-	9,688
Rent expense	-	15,600	-	19,033	-	34,633
Container shipping expense	-	8,318	-	-	-	8,318
Repair and maintenance expenses	-	-	-	5,525	-	5,525
Travel and entertainment	-	-	-	52	5,258	5,310
Total expenses by function	\$ <u>168,517</u>	\$ <u>237,080</u>	\$ <u>755,467</u>	\$ <u>114,897</u>	\$ <u>128,571</u>	\$ <u>1,404,532</u>

FRIENDS OF CHIMBOTE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 77,802
Adjustments to reconcile net change in net assets to net cash provided by operating activities	
Investment income	(44,714)
Contributions of investments	(66,774)
Change in net cash surrender value of life insurance	8,778
Changes in assets and liabilities	
Contributions receivable	3,619
Prepaid expenses	74,670
Accounts payable	(4,427)
Accrued payroll liabilities	5,168
Notes payable	<u>34,500</u>
Net cash provided by operating activities	<u>88,622</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(28,317)
Proceeds from sale of investments	<u>69,474</u>
Net cash provided by investing activities	<u>41,157</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	129,779
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>217,457</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 347,236</u></u>

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020, the Organization’s uninsured cash balance totaled \$111,149.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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 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, 2020, 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 2020, 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.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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.

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. The Organization believes that there are significant subsequent events where disclosures are required. See Note 11 for subsequent events.

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.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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*.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets as of December 31, 2020:

Assets available for use within one year.	
Cash and cash equivalents	\$ 347,236
Contributions receivable	57,914
Investments	<u>358,097</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>763,247</u></u>

The Organization has financial assets available within one year of the balance sheet 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, 2020:

Money market fund	\$ 14,290
Mutual funds	313,046
Short term bond	25,726
Common stock	<u>5,035</u>
	\$ <u><u>358,097</u></u>

Investment fees totaled \$-0- for the year ended December 31, 2020.

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, 2020

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.

Corporate Bonds – Valued at the most recent traded prices reported on the active market, on which the individual securities are 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, 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 14,290	\$ 14,290	\$ -	\$ -
Mutual funds - equity				
Domestic small-cap equity	62,580	62,580	-	-
Domestic mid-cap equity	56,242	56,242	-	-
Domestic large-cap equity	159,682	159,682	-	-
Real estate	34,542	34,542	-	-
Mutual funds - fixed income				
Short term bond	25,726	25,726	-	-
Common stock	<u>5,035</u>	<u>5,035</u>	<u>-</u>	<u>-</u>
	<u>\$ 358,097</u>	<u>\$ 358,097</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 – NOTES PAYABLE

Notes payable consisted of the following on December 31, 2020:

U.S. Small Business Administration CARES Act Paycheck Protection funds. See additional disclosure below.	\$ <u>34,500</u>
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Under terms of the loan agreement the Organization was granted a promissory note of \$34,500 through the Paycheck Protection Program of the U.S. Small Business Administration established through the CARES Act. The loan balance represents the amount of the loan for application for relief which has not been submitted. When relief is granted, no current liabilities will be paid, and no current maturities are accrued. See Note 11 for subsequent events.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 7 – DESIGNATED NET ASSETS

The Organization’s Board designated net assets consisted of the following at December 31, 2020:

Education	\$	16,052
Endowment fund for contingencies		353,062
Mission group expenses		15,015
Social programs		<u>38,505</u>
	\$	<u><u>422,634</u></u>

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.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Changes in endowment net assets are as follows as of December 31, 2020:

Endowment net assets, December 31, 2019	\$	283,713
Contributions		28,317
Investment income		44,349
Brokerage account		<u>(3,317)</u>
 Endowment net assets, December 31, 2020	 \$	 <u><u>353,062</u></u>

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, 2020:

Monetary contributions	\$	830,801
Contributions of goods		<u>208,054</u>
	\$	<u><u>1,038,855</u></u>

Contributions received by the Organization from the Board members totaled \$108,484 during the year ended December 31, 2020, respectively. Contribution receivables from the Board members totaled \$6,785 for the year ended December 31, 2020, 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, 2020, 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 \$34,633 for the year ended December 31, 2020.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Minimum future payments required by operating leases are as follows:

2021	\$	1,062
2022		1,062
2023		1,062
2024		<u>1,062</u>
	\$	<u><u>4,248</u></u>

NOTE 11 – SUBSEQUENT EVENTS

In January 2021, the full amount of the Paycheck Protection Program Loan was forgiven under the CARES Act.