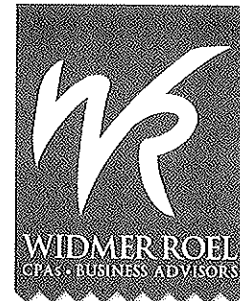


**FRIENDS OF CHIMBOTE**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**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, 2013 and 2012, 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*

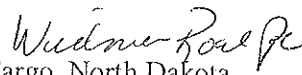
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2013 and 2012, 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  
August 7, 2014

Member of



**FRIENDS OF CHIMBOTE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,073,499	\$ 868,232
<b>INVESTMENTS</b>	876,991	821,907
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	<u>123,642</u>	<u>107,705</u>
Total assets	\$ <u>2,074,132</u>	\$ <u>1,797,844</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,343	\$ 2,400
Accrued payroll liabilities	<u>11,774</u>	<u>8,438</u>
Total current liabilities	<u>23,117</u>	<u>10,838</u>
<b>NET ASSETS</b>		
Unrestricted		
Board designated	1,333,000	1,038,820
Undesignated	<u>718,015</u>	<u>748,186</u>
Total net assets	<u>2,051,015</u>	<u>1,787,006</u>
Total liabilities and net assets	\$ <u>2,074,132</u>	\$ <u>1,797,844</u>

**FRIENDS OF CHIMBOTE**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>SUPPORT AND REVENUE</b>		
General mission contributions	\$ 1,038,827	\$ 1,293,899
Designated funds contributions	705,445	326,937
Contributions of container goods	563,719	595,022
Contributions of investments	87,901	13,959
Contributions of rental space	12,000	-
Los Amigos Foundation	-	46,197
Special event income, net	265,083	215,469
Investment income	63,853	47,022
Other income	627	2,417
	<u>2,737,455</u>	<u>2,540,922</u>
<b>EXPENSES</b>		
Salaries and wages	121,036	113,058
Payroll taxes	9,259	8,649
Employee benefits	8,533	10,893
Grants	1,569,536	1,358,835
Grants - noncash	563,719	595,022
Fundraising	58,265	41,635
General and administrative	38,502	32,762
Investment fees	8,466	8,092
Other operating expenses	4,870	500
Professional services	35,752	7,046
Rent expense	16,866	5,948
Repair and maintenance expenses	4,161	4,424
Travel and entertainment	34,481	32,237
	<u>2,473,446</u>	<u>2,219,101</u>
<b>CHANGE IN NET ASSETS</b>	264,009	321,821
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,787,006</u>	<u>1,465,185</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,051,015</u>	<u>\$ 1,787,006</u>

**FRIENDS OF CHIMBOTE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 264,009	\$ 321,821
Adjustments to reconcile net change in net assets to net cash provided by operating activities		
Unrealized gain on investments	(25,473)	(6,851)
Contributions of investments	(87,901)	(13,959)
Changes in assets and liabilities		
Cash surrender value of life insurance	(15,937)	(15,000)
Accounts payable	8,943	2,400
Accrued payroll liabilities	3,336	8,438
	<u>146,977</u>	<u>296,849</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(50,083)	(39,457)
Proceeds from sale of investments	<u>108,373</u>	<u>22,178</u>
	<u>58,290</u>	<u>(17,279)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	205,267	279,570
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>868,232</u>	<u>588,662</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u><u>1,073,499</u></u>	\$ <u><u>868,232</u></u>

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

**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, 2013 and 2012, 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, 2013 and 2012, the Organization’s uninsured cash balances totaled \$835,582 and \$374,782, respectively.

*Promises to Give*

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.

There were no promises to give at December 31, 2013 and 2012.

*(Continued)*

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

*Investments*

Investments are stated at fair value. Realized and unrealized gains and losses are included in the change in net assets.

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 December 31.

*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 noncash contributions and as grants -- noncash in the accompanying statements of activities and changes in net assets.

*Income Taxes*

The Organization is exempt from payment of federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Organization is required to record a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. As of December 31, 2013 and 2012, no such liability existed. Management will continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

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 2010.

*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.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

*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.

**NOTE 2 – INVESTMENTS**

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>

Investments consisted of the following at December 31, 2012:

	<u>Cost</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Fair Value</u>
Cash equivalents	\$ 96,749	\$ -	\$ 96,749
Fixed income mutual funds	184,773	9,084	193,857
Equities	183,731	117,316	301,047
Domestic equity mutual funds	78,479	18,934	97,413
Mixed world allocation mutual funds	132,582	259	132,841
	<u>\$ 676,314</u>	<u>\$ 145,593</u>	<u>\$ 821,907</u>

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

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 11,924	\$ 10,720
Realized gain	26,456	29,432
Unrealized appreciation of investments	25,473	6,870
	<u>\$ 63,853</u>	<u>\$ 47,022</u>

Investment fees totaled \$8,466 and \$8,092 for the years ended December 31, 2013 and 2012, respectively.



**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

**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.

*Cash Equivalents* – Valued at the amount held by the Organization at year-end.

*Mutual Funds and Exchange-Traded Funds* – Valued at the net asset value (“NAV”) of shares held by the Organization at year-end. Mutual funds and exchange-traded 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 mutual 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.

*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.

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2012:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 96,749	\$ 96,749	\$ -	\$ -
Fixed income mutual funds				
Short-term bond	80,921	80,921	-	-
Intermediate-term bond	112,936	112,936	-	-
Equities				
Common stocks	301,047	301,047	-	-
Domestic equity mutual funds				
Large growth	51,976	51,976	-	-
Foreign large blend	45,437	45,437	-	-
Mixed world allocation mutual funds	132,841	132,841	-	-
Cash surrender value of life insurance	<u>107,705</u>	<u>-</u>	<u>107,705</u>	<u>-</u>
	<u>\$ 929,612</u>	<u>\$ 821,907</u>	<u>\$ 107,705</u>	<u>\$ -</u>

**FRIENDS OF CHIMBOTE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 4 – DESIGNATED NET ASSETS**

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

	<u>2013</u>	<u>2012</u>
Development budget - events	\$ 36,132	\$ 35,294
Education	67,935	58,711
Endowment fund	876,991	821,907
EOC/CHOI Transformation	14,579	17,097
Gala sponsored Peru trip	5,000	-
Parish programs	710	400
Medical programs	1,780	21,121
Mission group expenses	5,715	1,932
Mission group projects	5,540	12,651
Social programs	133,018	49,107
Tim Killeen memorial fund	7,600	7,600
Wimbush Center phase II	178,000	13,000
	<u>\$ 1,333,000</u>	<u>\$ 1,038,820</u>

**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 investment objective for the portfolio is to achieve a long-term real rate of return on assets that is approximately

(Continued)

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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:

	<u>2013</u>	<u>2012</u>
Endowment net assets, beginning of year	\$ 821,907	\$ 783,818
Contributions	99,907	14,105
Investment income	38,077	39,311
Net appreciation	25,473	6,851
Amounts appropriated for expenditure	<u>(108,373)</u>	<u>(22,178)</u>
Endowment net assets, end of year	\$ <u>876,991</u>	\$ <u>821,907</u>

**NOTE 6 – SPECIAL EVENTS**

The Organization conducts several fundraising events throughout the year in order to maintain visibility in the community and raise funds for its operations. Special event income consisted of the following for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Contributions	\$ 248,788	\$ 203,545
Event fees	41,150	46,960
Costs of direct benefits to donors	<u>(24,855)</u>	<u>(35,036)</u>
	\$ <u>265,083</u>	\$ <u>215,469</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.

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

	<u>2013</u>	<u>2012</u>
Monetary contributions	\$ 1,513,903	\$ 1,339,781
Contributions of goods	<u>563,719</u>	<u>595,022</u>
	\$ <u>2,077,622</u>	\$ <u>1,934,803</u>

(Continued)

**FRIENDS OF CHIMBOTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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.

**NOTE 8 – OPERATING LEASE**

The Organization leases office space under an operating lease that calls for monthly payments of \$594 through December 2014. Future minimum rental payments required under the lease total \$7,128.

In 2013, the Organization also leased 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 during the year ended December 31, 2013 and was included in noncash contributions and rent expense in the statements of activities and changes of net assets.

Rental expense totaled \$16,866 and \$5,948 for the years ended December 31, 2013 and 2012, respectively.

**NOTE 9 – 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:

	<b>2013</b>	<b>2012</b>
Program services	\$ 2,133,255	\$ 1,953,857
Supporting services		
Management and general	141,082	124,028
Fundraising	199,109	141,216
	<b>\$ 2,473,446</b>	<b>\$ 2,219,101</b>

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through August 7, 2014, which is the date the financial statements were available to be issued.