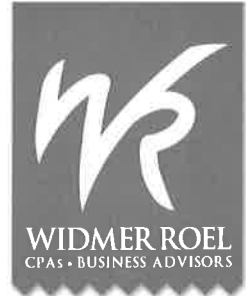


FRIENDS OF CHIMBOTE

**FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, 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, 2017 and 2016, 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
July 11, 2018

FRIENDS OF CHIMBOTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 363,147	\$ 376,704
Contributions receivable	64,996	49,585
Prepaid expenses	4,132	3,710
Land held for sale	18,500	-
Total current assets	450,775	429,999
INVESTMENTS	439,154	508,562
CASH SURRENDER VALUE OF LIFE INSURANCE	62,866	83,507
Total assets	\$ 952,795	\$ 1,022,068
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 14,652	\$ 4,216
Accrued payroll liabilities	32,749	9,767
Total current liabilities	47,401	13,983
NET ASSETS		
Unrestricted		
Board designated	498,199	597,377
Undesignated	407,195	410,708
Total net assets	905,394	1,008,085
Total liabilities and net assets	\$ 952,795	\$ 1,022,068

FRIENDS OF CHIMBOTE

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
Support and revenue		
General mission contributions	\$ 651,098	\$ 689,849
Designated funds contributions	207,961	113,414
Contributions of container goods	181,633	344,659
Contributions of investments	28,771	35,133
Contributions of land	18,500	-
Contributions of services	42,285	24,000
Contributions - special events	320,529	316,089
Special event revenue	9,100	10,800
Investment income	72,168	55,748
Other income	19	18
Net assets released from restrictions	-	42,801
Total support and revenue	1,532,064	1,632,511
Expenses		
Salaries and wages	172,664	199,917
Payroll taxes	13,195	15,245
Employee benefits	533	7,469
Costs of direct benefits to donors - special events	12,492	10,987
Grants	1,091,159	1,114,091
Grants - noncash	181,633	344,659
Fundraising	67,666	33,476
General and administrative	33,303	31,086
Other operating expenses	548	71
Professional services	8,726	8,238
Rent expense	34,776	34,776
Repair and maintenance expenses	5,789	4,316
Travel and entertainment	12,271	7,300
Total expenses	1,634,755	1,811,631
Change in unrestricted net assets	(102,691)	(179,120)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	-	(42,801)
CHANGE IN NET ASSETS	(102,691)	(221,921)

FRIENDS OF CHIMBOTE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
NET ASSETS, BEGINNING OF YEAR		
Unrestricted	1,008,085	1,187,205
Temporarily restricted	<u>-</u>	<u>42,801</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,008,085</u>	<u>1,230,006</u>
NET ASSETS, END OF YEAR		
Unrestricted	905,394	1,008,085
Temporarily restricted	<u>-</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 905,394</u>	<u>\$ 1,008,085</u>

FRIENDS OF CHIMBOTE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (102,691)	\$ (221,921)
Adjustments to reconcile net change in net assets to net cash used in operating activities		
Unrealized gain on investments	(59,429)	(39,314)
Realized gain on investments	(3,604)	(4,769)
Contributions of investments	(43,358)	(35,133)
Contributions of land	(18,500)	-
Change in net cash surrender value of life insurance	20,641	15,929
Changes in assets and liabilities		
Contributions receivable	(15,411)	(1,266)
Prepaid expenses	(422)	517
Accounts payable	10,436	3,214
Accrued payroll liabilities	22,982	(771)
Net cash used in operating activities	<u>(189,356)</u>	<u>(283,514)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(24,444)	(31,663)
Proceeds from sale of investments	200,243	335,617
Proceeds from surrender of life insurance	-	43,009
Net cash provided by investing activities	<u>175,799</u>	<u>346,963</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,557)	63,449
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>376,704</u>	<u>313,255</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 363,147</u>	<u>\$ 376,704</u>

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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.

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, 2017 and 2016, the Organization’s uninsured cash balances totaled \$113,147 and \$158,355, 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, 2017 and 2016, and no allowance for uncollectible amounts was established.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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.

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 policies. The policies are valued based on the cash surrender values less applicable surrender penalties and outstanding loans.

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

The Organization also collected a variety of in-kind contributions, such as gift cards, clothes, etc. These goods are used to raise money during the special event. The contributions of these goods are included as contributions – special events and as fundraising expense in the accompanying statements of activities and changes in net assets.

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 statements of activities and changes in net assets.

The Organization also received contribution of audio and visual services for the special event in 2017 that are included as contributions of services and related fundraising expense in the accompanying statements of activities and changes in net assets.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The Organization received an unrestricted contribution of land in 2017. The Organization's purpose for the land is to sell the property as soon as possible for funds to support the mission. The Organization obtained an appraisal of the property; however, the fair market value was determined based on the current sale price of an adjacent property and an offer the Organization had received for the property due to it more accurately reflected the current market value which is included as contributions of land 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 2014.

Functional Allocation of Expenses

Expenses have been allocated on a functional basis between program and supporting services based on the analysis of which functions benefitted and payroll is allocated based on the 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.

NOTE 2 – INVESTMENTS

Investments consisted of the following at December 31:

	2017	2016
Money market fund	\$ 28,693	\$ 44,097
Mutual funds	410,461	464,465
	\$ 439,154	\$ 508,562

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

	2017	2016
Interest and dividends	\$ 9,135	\$ 11,665
Realized gain	3,604	4,769
Change in unrealized appreciation (depreciation)	59,429	39,314
	\$ 72,168	\$ 55,748

Investment fees totaled \$-0- for the years ended December 31, 2017 and 2016.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 – 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.

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.

Cash Surrender Value of Life Insurance Policies – 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 and any outstanding loans.

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, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 28,693	\$ 28,693	\$ -	\$ -
Mutual funds - equity				
Domestic small-cap equity	66,681	66,681	-	-
Domestic mid-cap equity	60,036	60,036	-	-
Domestic large-cap equity	191,322	191,322	-	-
Domestic large-cap growth	17,203	17,203	-	-
Real estate	34,607	34,607	-	-
Mutual funds - fixed income				
Short-term bond	40,612	40,612	-	-
Cash surrender value of life insurance	<u>62,866</u>	<u>-</u>	<u>62,866</u>	<u>-</u>
	<u>\$ 502,020</u>	<u>\$ 439,154</u>	<u>\$ 62,866</u>	<u>\$ -</u>

(Continued)

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 44,097	\$ 44,097	\$ -	\$ -
Mutual funds - equity				
Domestic small-cap equity	75,978	75,978	-	-
Domestic mid-cap equity	68,198	68,198	-	-
Domestic large-cap equity	224,320	224,320	-	-
Real estate	45,726	45,726	-	-
Mutual funds - fixed income				
Short-term bond	50,243	50,243	-	-
Cash surrender value of life insurance	83,507	-	83,507	-
	<u>\$ 592,069</u>	<u>\$ 508,562</u>	<u>\$ 83,507</u>	<u>\$ -</u>

NOTE 4 – DESIGNATED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Education	\$ 55,255	\$ 84,040
Endowment fund	439,154	508,562
Mission group expenses	3,790	680
Mission group projects	-	595
Social programs	-	3,500
	<u>\$ 498,199</u>	<u>\$ 597,377</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.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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 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:

Endowment net assets, December 31, 2015	\$ 733,300
Contributions	20,000
Investment income	11,914
Net appreciation	43,348
Amounts appropriated for expenditure	<u>(300,000)</u>
Endowment net assets, December 31, 2016	508,562
Contributions	15,307
Investment income	9,605
Net appreciation	60,691
Amounts appropriated for expenditure	<u>(155,011)</u>
Endowment net assets, December 31, 2017	<u>\$ 439,154</u>

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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>2017</u>	<u>2016</u>
Program services	\$ 1,272,793	\$ 1,458,749
Supporting services		
Management and general	159,149	152,796
Fundraising	190,321	189,099
Costs of direct benefits to donors	<u>12,492</u>	<u>10,987</u>
	<u>\$ 1,634,755</u>	<u>\$ 1,811,631</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>2017</u>	<u>2016</u>
Monetary contributions	\$ 1,059,435	\$ 1,043,885
Contributions of goods	<u>181,633</u>	<u>344,659</u>
	<u>\$ 1,241,068</u>	<u>\$ 1,388,544</u>

Contributions received by the Organization from the Board members totaled \$127,793 and \$120,502 during the years ended December 31, 2017 and 2016, respectively. There were no contributions receivable from the Board members at December 31, 2017 and 2016.

NOTE 8 – 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 is included in noncash contributions and rent expense in the statements of activities and changes of net assets.

FRIENDS OF CHIMBOTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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 years ended December 31, 2017 and 2016, and was included in noncash contributions and rent 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 February 2020.

Rental expense totaled \$34,776 and \$34,776 for the years ended December 31, 2017 and 2016, respectively.

Minimum future payments required by operating leases are as follows:

2018	\$	1,176
2019		1,176
2020		<u>98</u>
	\$	<u><u>2,450</u></u>

NOTE 9 – SUBSEQUENT EVENTS

In January 2018, the land held for sale was sold for \$18,500 of which the organization received \$17,956 in cash and paid \$543 in closing costs. Also in January, the Organization transferred \$70,000 back into the endowment fund.

The Organization has evaluated subsequent events through July 11, 2018, the date the financial statements were able to be issued.