Hope International Ministries, Inc.

Financial Statements

December 31, 2016 and 2015

Gregory, Sharer & Stuart

Certified Public Accountants and Business Consultants

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Gregory, Sharer & Stuart, P.A.
Certified Public Accountants and Business Consultants

Independent Auditor's Report

To the Board of Directors
Hope International Ministries, Inc.
Tampa, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Hope International Ministries, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes.

Management's Responsibility for the Financial Statements

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 the 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 the 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 from 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 Hope International Ministries, Inc. as of December 31, 2016 and 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Hope International Ministries, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2016. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory, Sharer & Stuart, P.A.

Gregory, Sharer + Stuart, P.A.

St. Petersburg, Florida
August 16, 2017

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	December 31 2016	December 31 2015
Assets		
Current assets		
Cash	$ 1,890,475	$ 1,739,538
Accounts receivable	-	4,001
Investments	956,362	1,000,482
Current portion of note receivable	42,096	2,096
Due from related parties	-	556
Total current assets	2,888,933	2,746,673
Property and equipment, net of accumulated depreciation	4,921,521	4,553,854
Investments	95,608	88,897
Notes receivable, net of current portion	54,728	95,678
Total assets	$ 7,960,790	$ 7,485,102
Liabilities and net assets		
Current liabilities		
Accounts payable	$ 11,249	$ 47,744
Current maturities of long-term debt	33,069	31,933
Accrued expenses	167,875	28,714
Due to related parties	1,215	-
Total current liabilities	213,408	108,391
Long-term debt, net of current maturities and debt issuance costs	781,309	813,028
Total liabilities	994,717	921,419
Net assets		
Unrestricted	5,466,316	4,962,675
Temporarily restricted	1,404,149	1,512,111
Permanently restricted	95,608	88,897
Total net assets	6,966,073	6,563,683
Total liabilities and net assets	$ 7,960,790	$ 7,485,102

	Year Ended December 31, 2016				Summarized Comparative Totals Year Ended December 31, 2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues, gains/losses, and other support					
Contributions	$ 2,601,896	$ 383,508	$ -	$ 2,985,404	$ 3,349,163
In-kind contributions	487,306	-	-	487,306	519,041
Interest and dividends	5,114	-	-	5,114	37
Realized and unrealized gain/(loss) on investments	38,283	-	6,711	44,994	(73,043)
Events, net	(20,994)	-	-	(20,994)	32,864
Other	65,833	-	-	65,833	13,556
Net assets released from restriction	491,470	(491,470)	-	-	-
Total revenue, gains/losses, and other support	3,668,908	(107,962)	6,711	3,567,657	3,841,618
Expenses					
Program services	2,492,421	-	-	2,492,421	2,060,209
Support services					
Administrative	435,736	-	-	435,736	1,238,845
Fundraising	237,110	-	-	237,110	234,508
Total expenses	3,165,267	-	-	3,165,267	3,533,562
Change in net assets	503,641	(107,962)	6,711	402,390	308,056
Net assets at beginning of year	4,962,675	1,512,111	88,897	6,563,683	6,255,627
Net assets at end of year	$ 5,466,316	$ 1,404,149	$ 95,608	$ 6,966,073	$ 6,563,683

Hope International Ministries, Inc.

Statement of Functional Expenses for the Year Ended December 31, 2016

With Summarized Financial Information for the Year Ended December 31, 2015

		Support Services				Summarized Comparative Totals
	Program Services	Administrative	Fundraising	Total Support Services	Total Expenses	Year Ended December 31, 2015
Salaries and wages	$ 590,550	$ 79,495	$ 67,569	$ 147,064	$ 737,614	$ 691,545
Employee benefits	221,508	119,840	40,072	159,912	381,420	223,202
Payroll taxes	55,617	939	7,550	8,489	64,106	60,316
Total salaries and related expenses	867,675	200,274	115,191	315,465	1,183,140	975,063
Children's programs	92,794	-	-	-	92,794	101,987
Junior/senior expenses	16,183	-	-	-	16,183	7,397
School	48,975	-	-	-	48,975	29,330
Occupancy	165,834	1,500	-	1,500	167,334	159,851
Repairs and maintenance	71,708	-	-	-	71,708	208,217
Travel	65,472	10,901	-	10,901	76,373	48,676
Professional fees	-	197,694	-	197,694	197,694	870,785
Insurance	87,702	-	-	-	87,702	86,543
Information technology	32,594	-	-	-	32,594	34,188
Office expenses	18,000	5,845	65,057	70,902	88,902	99,753
Fees and dues	15,370	-	5,196	5,196	20,566	32,354
In-kind expenses	488,913	-	-	-	488,913	512,046
Donations to affiliates	300,000	-	-	-	300,000	-
Other	14,305	16,064	51,666	67,730	82,035	141,741
Total expenses before depreciation and interest	2,285,525	432,278	237,110	669,388	2,954,913	3,307,931
Depreciation	175,240	3,458	-	3,458	178,698	186,388
Interest	31,656	-	-	-	31,656	39,243
Total expenses	$ 2,492,421	$ 435,736	$ 237,110	$ 672,846	$ 3,165,267	$ 3,533,562

See accompanying notes to financial statements.

	Year Ended December 31, 2016	2015
Cash flows from operating activities		
Change in net assets	$ 402,390	$ 308,056
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	178,698	186,388
Amortization of loan costs	1,228	826
Realized and unrealized (gain) loss on investments	(44,994)	73,043
Donated investments	-	(40,323)
Decrease in operating assets		
Accounts receivable	4,001	21
Due to/from related parties	1,771	38,370
Increase in operating liabilities		
Accounts payable and accrued expenses	102,666	44,224
Net cash provided by operating activities	645,760	610,605
Cash flows from investing activities		
Proceeds from sale of investments	82,403	15,913
Purchases of property and equipment	(546,365)	(416,917)
Proceeds from note receivable	950	2,487
Net cash used by investing activities	(463,012)	(398,517)
Cash flows from financing activities		
Principal payments on long-term debt	(31,811)	(44,333)
Net increase in cash	150,937	167,755
Cash at beginning of year	1,739,538	1,571,783
Cash at end of year	$ 1,890,475	$ 1,739,538

Supplemental Disclosure		
Cash paid for interest	$ 30,428	$ 38,417

See accompanying notes to financial statements.

Note A - Description of Organization

Hope International Ministries, Inc. (the Organization) is a not-for-profit corporation founded in 1968 to provide a Christian home and education for children who have come from broken homes and families. The Organization has cared for nearly 5,000 abandoned, abused, neglected, and orphaned children from newborn through 18 years old. These children have come from the United States and around the world. The Organization does not receive government funding, but is supported by individuals, churches, businesses, and other organizations.

The Organization is located in Tampa, Florida on 55 beautifully wooded acres of land. The campus consists of dormitories for the boys and girls that can house a total of 80 children, as well as two 4,000 square foot cottages that care for younger children and allow siblings to live together. The children live in a family atmosphere with house parents who give guidance and encouragement.

Hope Christian School is also located on the property and is accredited by the state of Florida, providing a private Christian education to children from nursery through 12th grade.

Note B - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. If donor-imposed restrictions are met in the same period the gift is received, the amount is reported as unrestricted revenue. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted net assets - include net assets that are not subject to donor imposed stipulations.

Temporarily restricted net assets - include net assets for which donor imposed restrictions have not been met.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Summarized Financial Information for 2015

The accompanying statement of activities and statement of functional expenses includes certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Cash

Cash consists of cash on hand in checking and savings accounts.

Contributions and Recognition of Donor Restrictions

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contributions are received. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Accounts and Notes Receivable and Allowance

Accounts receivable and notes receivable are stated at cost less an allowance for doubtful accounts. Management's determination of the allowance is based on an evaluation of past collection history. Management provides for probable uncollectable amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

An allowance for accounts receivable and notes receivable is considered unnecessary by management as of December 31, 2016 and 2015.

Investments

Investments are recorded at estimated fair value. Cash and money market accounts designated for long-term purposes are classified as investments.

Current accounting guidance for investments defines fair value disclosure requirements, and specifies a hierarchy of valuation techniques. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

– Level 1 - Unadjusted quoted market prices for identical assets in active markets which are accessible by the Organization.

– Level 2 - Observable prices in active markets for similar assets. Prices for identical or similar assets in markets that are not active. Market inputs that are not directly observable but are derived from or corroborated by observable market data.

– Level 3 - Unobservable inputs based on the Organization's own judgment as to assumptions a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data.

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Organization is treated as a publicly supported organization, and not as a private foundation. Management is not aware of any activities that would jeopardize the Organization's tax-exempt status.

Property and Equipment

Property and equipment are carried at cost if purchased or at estimated fair market value at date of receipt if acquired by gift. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets ranging from five to 40 years.

Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of property and equipment assets are capitalized. Expenditures for normal repairs and maintenance are expensed as incurred.

Concentration of Credit Risk

From time to time, the Organization may maintain cash balances that exceed federal insurance limits. Management believes the risk of loss is remote.

Functional Expenses

The cost of providing for the programs and other activities has been detailed in the statements of functional expenses and summarized on a functional basis in the statement of activities.

Reclassifications

Certain amounts in the accompanying 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no effect on the previously reported change in net assets.

Note C - Investments and Fair Value Measurements

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

2016	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and cash equivalents	$ 129,301	$ 129,301	$ -	$ -
Mutual funds	827,061	827,061	-	-
Other	95,608	-	95,608	-
	$ 1,051,970	$ 956,362	$ 95,608	$
2015				
Cash and cash equivalents	$ 84,239	$ 84,239	$ -	$ -
Mutual funds	916,243	916,243	-	-
Other	88,897	-	88,897	-
	$ 1,089,379	$ 1,000,482	$ 88,897	$ -

Note D - Notes Receivable

The Organization's notes receivable consist of the following at December 31:

	2016	2015
Note receivable from former employee, $175 monthly payments including interest at 6%, due April 2019, unsecured.	$ 6,824	$ 7,774
Note receivable from an unrelated third party, with varying payment amounts of principal plus interest at 15% per annum as per the promissory note, due May 2018, unsecured.	90,000	90,000
	96,824	97,774
Less current portion	(42,096)	(2,096)
	$ 54,728	$ 95,678

Note E - Property and Equipment

Property and equipment at December 31:

	2016	2015
Land	$ 2,288,674	$ 2,288,674
Buildings and improvements	4,111,144	3,899,691
Property improvements	527,550	234,084
Vehicles	341,205	285,625
Equipment	128,771	83,455
Furniture and fixtures	45,062	45,062
Software	68,698	68,698
Construction in progress	-	88,653
Total property and equipment	7,511,104	6,993,942
Less: accumulated depreciation	(2,589,583)	(2,440,088)
Net property and equipment	$ 4,921,521	$ 4,553,854

Depreciation expense for the years ended December 31, 2016 and 2015 was $178,698 and $186,388, respectively.

Note F - Long-Term Debt

The Organization maintained a mortgage obligation for the campus property. The mortgage bore interest at 6% and was collateralized by the property.

In April of 2015, the mortgage was refinanced with another financial institution.

The Hope Campus mortgage is $890,000 financed over 10 years at an annual rate of 3.5%, and is collateralized by the underlying real estate. Monthly payments of $5,162 include both principal and interest, with the remaining principal due at maturity.

The Company incurred debt issuance costs in 2015 of approximately $12,000, in connection with the issuance of long-term debt, which is presented as a reduction of long-term debt to be amortized over the term of the loan.

The components of debt issuance costs are as follows:

	2016	2015
Debt issuance costs	$ 12,284	$ 12,284
Less accumulated amortization	(2,054)	(826)
Total debt issuance costs, net	$ 10,230	$ 11,458

Interest expense related to debt issuance costs for the year ended December 31, 2016 and 2015 was $1,228 and $826, respectively.

The obligation under long-term debt as of December 31 is guaranteed by GoodKids Village Incorporated, a related party as described in Note I and consists of the following:

	2016	2015
Hope Campus	$ 824,608	$ 856,419
Less debt issuance costs	(10,230)	(11,458)
Less current maturities	(33,069)	(31,933)
Total long-term debt, net	$ 781,309	$ 813,028

Maturities of the refinanced debt are as follows at December 31:

2017	$ 33,069
2018	34,245
2019	35,463
2020	36,724
2021	38,030
Thereafter	647,077
	$ 824,608

Note G - Temporarily and Permanently Restricted Net Assets

Net assets were temporarily restricted for the following purposes at December 31:

	2016	2015
Capital needs	$1,371,691	$1,484,238
Enrichment activities	32,458	27,873
	$1,404,149	$1,512,111

At December 31, 2016 and 2015, permanently restricted net assets of $95,608 and $88,897, respectively consisted of various one-time gifts to be used for educational activities.

Note H - Commitments

During 2015, the Organization entered into two noncancelable operating leases for copiers expiring in April and December of 2020. Rental expense for the years ended December 31, 2016 and 2015 was approximately $9,000 and $5,000, respectively.

Future minimum lease payments are summarized as follows at December 31:

2017	$ 9,024
2018	9,024
2019	9,024
2020	3,664
	$ 30,736

Note I - Related Party Transactions

The Organization's employment policy requires all employees and their immediate families live on the Organization's property during their employment.

Hope of Honduras, Inc. operates a children's home in Honduras. The Organization provides accounting and management staff to Hope of Honduras, Inc. In 2016, The Organization donated $300,000 to Hope of Honduras for the purpose of constructing a cottage. The Organization's executive director, board chairman, board treasurer, and board secretary are members of Hope of Honduras, Inc.'s board.

GoodKids Village Incorporated (GoodKids) operates two thrift stores in the Tampa Bay area for the purpose of raising funds to support the programs of organizations that care for the wellbeing of children around the world. The Organization provides accounting and management staff to GoodKids. The Organization also guarantees the mortgages related to the GoodKids thrift stores and GoodKids guarantees the mortgage of the Organization (Note F). Effective in March 2015, the Organization's board chairman, board treasurer, and board secretary are members of GoodKids' board.

Although the Organization shares common board members with these organizations, it does not have an economic interest in the organizations, nor does it have control over them. Therefore, the operations of the organizations are not included in the accompanying financial statements of the Organization.

Note J - Subsequent Events

For the year ended December 31, 2016, management of the Organization has evaluated subsequent events for potential recognition and disclosure through August 16, 2017, the date the financial statements were available to be issued. There were no subsequent events that would require adjustment to, or disclosure in, the accompanying financial statements.