

Love A Child, Inc.

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

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Independent Auditors' Report

Board of Directors
Love A Child, Inc.

We have audited the accompanying consolidated financial statements of Love A Child, Inc. (the "Organization") which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Love A Child, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

**Raleigh, North Carolina
June 25, 2018**

Love A Child, Inc.
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 5,058,660	\$ 3,141,664
Investments	319,726	241,649
Property and equipment, net	5,097,773	5,447,947
Deposits	<u>1,045</u>	<u>1,045</u>
Total assets	<u>\$ 10,477,204</u>	<u>\$ 8,832,305</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable accrued expenses	\$ 474,929	\$ 421,209
Note payable	<u>1,127,626</u>	<u>1,189,128</u>
Total liabilities	1,602,555	1,610,337
Unrestricted net assets	<u>8,874,649</u>	<u>7,221,968</u>
Total liabilities and net assets	<u>\$ 10,477,204</u>	<u>\$ 8,832,305</u>

See accompanying notes.

Love A Child, Inc.
Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Unrestricted revenues and gains and other support:		
Contributions	\$ 14,444,204	\$ 14,183,513
In-kind contributions	51,023,926	50,767,298
Investment income	1,593	7,457
Realized and unrealized gain on investments	35,429	27,824
Miscellaneous income	197,305	104,517
	<u>65,702,457</u>	<u>65,090,609</u>
Expenses:		
Program services:		
Humanitarian	60,477,393	60,202,680
Supporting services:		
Management and general	1,559,905	1,663,620
Fundraising	2,012,478	1,977,009
	<u>3,572,383</u>	<u>3,640,629</u>
Total expenses	<u>64,049,776</u>	<u>63,843,309</u>
Change in net assets	1,652,681	1,247,300
Net assets at beginning of year	<u>7,221,968</u>	<u>5,974,668</u>
Net assets at end of year	<u>\$ 8,874,649</u>	<u>\$ 7,221,968</u>

See accompanying notes.

Love A Child, Inc.
Consolidated Statements of Functional Expenses
Years Ended December 31, 2017

	2017				Total Expenses
	Program Services	Supporting Services			
	Humanitarian	Management & General	Fundraising	Total	
Contributed food and supplies	\$ 50,995,708	\$ -	\$ -	\$ -	\$ 50,995,708
Compensation	2,122,225	805,989	12,221	818,210	2,940,435
Contract labor	8,985	-	16,200	16,200	25,185
Fringe benefits	61,274	29,269	1,389	30,658	91,932
Payroll taxes	140,136	61,803	852	62,655	202,791
Communication	86,287	16,025	76,329	92,354	178,641
Consulting and design	54,216	83,325	-	83,325	137,541
Rent	18,413	16,810	-	16,810	35,223
Supplies	128,676	27,376	16,533	43,909	172,585
Shipping and freight	1,370,762	6,614	-	6,614	1,377,376
Churches/schools/childcare	2,818,389	-	-	-	2,818,389
TV ministry	622,189	-	1,451,773	1,451,773	2,073,962
Other ministries	13,469	-	-	-	13,469
Utilities	281,166	4,892	-	4,892	286,058
Insurance	33,982	31,789	383	32,172	66,154
Vehicle maintenance	108,447	1,533	-	1,533	109,980
Travel and lodging	173,816	24,802	2,622	27,424	201,240
Postage	266,506	-	266,505	266,505	533,011
Dues and subscriptions	-	37,750	-	37,750	37,750
Advertising	421	-	-	-	421
Equipment lease	-	10,316	-	10,316	10,316
Interest expense	35,227	11,124	-	11,124	46,351
Printing	167,672	-	167,671	167,671	335,343
Professional--accounting	-	77,333	-	77,333	77,333
Professional--legal	18,970	8,018	-	8,018	26,988
Investment fees	-	526	-	526	526
Bank charges	12,582	29,936	-	29,936	42,518
Credit card processing fees	-	184,453	-	184,453	184,453
Taxes and licenses	77,433	5,200	-	5,200	82,633
Depreciation	563,332	14,666	-	14,666	577,998
Building cleaning and maintenance	271,580	39,846	-	39,846	311,426
Loss on disposal of assets	15,138	-	-	-	15,138
Promotional events	8,266	8,267	-	8,267	16,533
Education/seminars	2,126	2,566	-	2,566	4,692
Miscellaneous	-	19,677	-	19,677	19,677
Total expenses	\$ 60,477,393	\$ 1,559,905	\$ 2,012,478	\$ 3,572,383	\$ 64,049,776

See accompanying notes.

Love A Child, Inc.
Consolidated Statements of Functional Expenses
Years Ended December 31, 2016

	2016				Total Expenses
	Program Services	Supporting Services			
	Humanitarian	Management & General	Fundraising	Total	
Contributed food and supplies	\$ 50,740,951	\$ -	\$ -	\$ -	\$ 50,740,951
Compensation	2,077,548	903,238	-	903,238	2,980,786
Contract labor	78,276	-	12,840	12,840	91,116
Fringe benefits	66,873	33,107	-	33,107	99,980
Payroll taxes	143,628	69,829	-	69,829	213,457
Communication	86,374	12,937	104,041	116,978	203,352
Consulting and design	55,913	104,846	-	104,846	160,759
Rent	17,359	16,273	-	16,273	33,632
Supplies	101,301	30,998	7,328	38,326	139,627
Shipping and freight	1,447,699	6,398	-	6,398	1,454,097
Churches/schools/childcare	2,656,888	-	-	-	2,656,888
TV ministry	609,293	-	1,421,682	1,421,682	2,030,975
Other ministries	16,264	-	-	-	16,264
Utilities	337,036	4,443	-	4,443	341,479
Insurance	37,464	32,219	-	32,219	69,683
Vehicle maintenance	122,715	525	-	525	123,240
Travel and lodging	173,910	14,872	-	14,872	188,782
Postage	283,722	-	283,722	283,722	567,444
Dues and subscriptions	-	28,559	-	28,559	28,559
Advertising	5,792	-	-	-	5,792
Equipment lease	-	27,421	-	27,421	27,421
Interest expense	42,164	13,315	-	13,315	55,479
Printing	147,396	-	147,396	147,396	294,792
Professional--accounting	-	82,248	-	82,248	82,248
Professional--legal	22,260	8,281	-	8,281	30,541
Bank charges	18,855	29,411	-	29,411	48,266
Credit card processing fees	-	164,347	-	164,347	164,347
Taxes and licenses	56,530	6,053	-	6,053	62,583
Depreciation	562,701	27,670	-	27,670	590,371
Building cleaning and maintenance	281,598	33,936	-	33,936	315,534
Promotional events	12,170	12,170	-	12,170	24,340
Miscellaneous	-	524	-	524	524
Total expenses	\$ 60,202,680	\$ 1,663,620	\$ 1,977,009	\$ 3,640,629	\$ 63,843,309

See accompanying notes.

Love A Child, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities:		
Change in net assets	\$ 1,652,681	\$ 1,247,300
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	577,998	590,371
Non-operating in-kind contributions	(28,218)	(26,347)
Realized and unrealized gain on investments	(35,429)	(27,824)
(Gain) / loss on disposal of property and equipment	15,138	(1,361)
Net change in:		
Deposits	-	(150)
Accounts payable and accrued expenses	53,720	(80,200)
Net cash provided by operating activities	<u>2,235,890</u>	<u>1,701,789</u>
Investing activities:		
Proceeds from sale of investments	-	247,635
Purchase of investments	(26,065)	-
Proceeds from sale of property and equipment	-	2,300
Purchase of property and equipment	(231,327)	(440,206)
Net cash used in investing activities	<u>(257,392)</u>	<u>(190,271)</u>
Financing activities:		
Principal payments on note payable	(61,502)	(253,006)
Net change in cash and cash equivalents	1,916,996	1,258,512
Cash and cash equivalents at beginning of year	<u>3,141,664</u>	<u>1,883,152</u>
Cash and cash equivalents at end of year	<u>\$ 5,058,660</u>	<u>\$ 3,141,664</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 46,351</u>	<u>\$ 55,479</u>
Noncash investing and financing activities:		
Contributed investments	<u>\$ 16,583</u>	<u>\$ 26,347</u>
Contributed property and equipment	<u>\$ 11,635</u>	<u>\$ -</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of Organization and Significant Accounting Policies

Love A Child, Inc. (the "Organization") exists to support needy individuals, primarily children, through humanitarian care such as medical and educational services, child support programs, orphanages, volunteer work programs, feeding programs and various other projects. The Organization is supported through contributions from the general public. The Organization offers the following programs:

- Child Care/Food Program
- Medical Crusades
- Education
- USA Church Crusades

The consolidated financial statements include the accounts of Love A Child Holding LLC ("LLC"). The Organization is the sole member of the LLC. All significant intercompany transactions and account balances have been eliminated in consolidation.

Basis of Accounting and Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by action of the Organization and/or the passage of time.

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 related investments for general or specific purposes.

There were no temporarily or permanently restricted net assets at December 31, 2017 or 2016.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 consolidated financial statements and the reported amounts of revenue and other support and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts. The Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all debt securities are reported at their fair value on the consolidated statements of financial position. Unrealized gains and losses are included in

Love A Child, Inc.
Notes to Consolidated Financial Statements

the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method. The general range of estimated useful lives for buildings, building improvements, and leasehold improvements are 10 to 40 years and the general range for furniture and equipment and vehicles is 3 to 10 years.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Contributions

All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are met. Unconditional promises to give due in the next year, are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported based on the net present value of the projected fair value at the date that those assets are expected to be received, considering the likelihood of the promise being fulfilled. In 2017 and 2016, there were no conditional or unconditional promises to give. During 2017 and 2016, there were no temporarily restricted contributions received or expended.

In-kind contributions consist of food, clothes, medical supplies, equipment and investments. These contributions are recorded at fair value when received.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation within the meaning of Section 509(a) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis on the statements of activities. Accordingly, certain costs have been allocated among program and supporting services. Salaries and other expenses associated with a specific program are charged directly to that program while salaries that benefit more than one program are allocated to the various programs based on management's estimates of how time was spent. Other expenses that benefit more than one program are allocated by use of such methods as floor space usage and salary percentages as appropriate.

Subsequent Events

The Organization evaluated the effect of subsequent events would have on the consolidated financial statements through June 25, 2018, which is the date the consolidated financial statements were available to be issued.

Love A Child, Inc.
Notes to Consolidated Financial Statements

2. Investments

Investments at December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Coins	\$ 22,508	\$ 22,508
Marketable equity securities	<u>297,218</u>	<u>219,141</u>
Total investments	<u>\$ 319,726</u>	<u>\$ 241,649</u>

Investment income of \$1,593 and \$7,457 during 2017 and 2016, respectively, consists of unrestricted interest income and dividends. Unrealized gain on investments amounted to \$27,187 and \$16,059 at December 31, 2017 and 2016, respectively. Realized gain on investments amounted to \$8,242 and \$11,765 at December 31, 2017 and 2016, respectively.

3. Fair Values of Assets and Liabilities

Fair value as defined under U.S. GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Accounting principles generally accepted in the United States of America establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Assets and Liabilities at Fair Value on a Recurring Basis

When quoted prices are available in active markets for identical instruments, investment securities are classified within Level 1 of the fair value hierarchy. Level 1 investments include common stocks, mutual funds, and exchange-traded funds which are valued based on prices readily available in the active markets in which those securities are traded. Level 2 investments include coins which are valued on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets.

The Organization does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 3 during 2017. There were no changes during 2017 to the Organization's valuation techniques used to measure asset and liability fair values on a recurring basis.

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Notes to Consolidated Financial Statements

The table below presents the balances of assets measured at fair value on a recurring basis.

	December 31, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks	\$ 183,884	\$ 183,884	\$ -	\$ -
Coins	22,508	-	22,508	-
Mutual funds	60,158	60,158	-	-
Exchange-traded funds	<u>18,868</u>	<u>18,868</u>	-	-
Total investments	<u>\$ 285,418</u>	<u>\$ 262,910</u>	<u>\$ 22,508</u>	<u>\$ -</u>

The Organization has \$34,308 of cash balances included in investments as of December 31, 2017, which are not included in the fair value hierarchy.

	December 31, 2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks	\$ 165,479	\$ 165,479	\$ -	\$ -
Coins	22,508	-	22,508	-
Mutual funds	36,991	36,991	-	-
Exchange-traded funds	<u>16,671</u>	<u>16,671</u>	-	-
Total investments	<u>\$ 241,649</u>	<u>\$ 219,141</u>	<u>\$ 22,508</u>	<u>\$ -</u>

4. Property and Equipment

Property and equipment include the following at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 536,548	\$ 865,460
Vehicles	1,606,955	1,519,640
Land	2,293,171	2,293,171
Land improvements	380,877	380,877
Buildings	5,959,972	5,985,302
Building improvements	<u>1,203,454</u>	<u>1,226,711</u>
	11,980,977	12,271,161
Less accumulated depreciation	<u>6,883,204</u>	<u>6,823,214</u>
Property and equipment, net	<u>\$ 5,097,773</u>	<u>\$ 5,447,947</u>

Love A Child, Inc.
Notes to Consolidated Financial Statements

5. Note Payable

In May 2011, the Organization purchased an office building in Fort Myers, Florida in part using the proceeds of a \$1,704,250 note payable. Monthly payments of principal and interest at 4.5% are made over a 20 year amortization period with a balloon payment of all principal and interest due in May 2016. In June 2016, the Organization refinanced this note payable. Monthly payments of principal and interest of \$9,000 at 3.95% will be made over a 60 month amortization period with a balloon payment of all principal and interest due in June 2021. The note payable is secured by the assignment of rents as well as essentially all property located in the United States of America. The note payable is subject to certain debt covenants including a requirement to maintain a debt service coverage ratio of 1.3 to 1 at fiscal year end. The Organization was in compliance with this covenant for the year ended December 31, 2017.

Maturities of the note payable as of December 31 are as follows:

2018	\$	64,505
2019		67,104
2020		69,697
2021		<u>926,320</u>
Total	\$	<u>1,127,626</u>

6. Operating Leases

The Organization is obligated under non-cancelable operating leases for certain administrative facilities and equipment. Most of the leases include options for renewal at the end of the current lease term. Total lease and rent expense for 2017 and 2016 was approximately \$46,000 and \$61,000, respectively. The following is a schedule by year of future minimum lease payments as of December 31, 2017:

2018	\$	8,520
2019		8,520
2020		6,080
2021		<u>932</u>
	\$	<u>24,052</u>

7. Concentrations

Financial instruments that potentially expose the Organization to concentrations of credit risk, as defined by U.S. GAAP, consist primarily of bank accounts with balances in excess of amounts insured by the Federal Deposit Insurance Corporation.

Love A Child, Inc.
Notes to Consolidated Financial Statements

The Organization receives in-kind contributions from various organizations which consist primarily of seeds, vitamins, medicines, and labor related to the enhancement of the Organization's mission. The Organization received its in-kind contributions from the following organizations:

	<u>2017</u>	<u>2016</u>
MAP International	\$ 44,184,721	\$ 22,506,849
Cross International	162,118	22,353,049
Feed My Starving Children	5,514,221	5,625,418
World Vision	772,757	35,919
International Aid	154,559	36,796
Buckeye International	-	86,371
PET International	-	11,600
Chapin Living Waters	-	5,000
Hope Seed	60,165	79,950
Other	<u>175,385</u>	<u>26,346</u>
Total	<u>\$ 51,023,926</u>	<u>\$ 50,767,298</u>

8. Foreign Operations

The Organization conducts humanitarian and other program operations in Haiti and has property and equipment, with a net book value of approximately \$2,637,000 located in Haiti. The Organization's revenues are from sources within the United States and it maintains its bank accounts in the United States. Account balances relating to foreign operations are reflected in the consolidated financial statements in United States dollars.

9. Donated Materials and Services

The Organization receives donated materials from a variety of sources as disclosed in Note 7. The Organization also receives donated services from a variety of unpaid volunteers. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services and materials for the years ended December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Clothes, food and medicine	\$ 50,995,708	\$ 50,740,951
Equipment	11,635	-
Investments	<u>16,583</u>	<u>26,347</u>
Total	<u>\$ 51,023,926</u>	<u>\$ 50,767,298</u>

Love A Child, Inc.
Notes to Consolidated Financial Statements

10. Joint Activities Disclosures

During the years ended December 31, 2017 and 2016, the Organization incurred \$2,073,962 and \$2,030,975, respectively, of costs related to production of television programming. The joint costs related to this activity that have been allocated among functional expenses are as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 622,189	\$ 609,293
Fundraising	<u>1,451,773</u>	<u>1,421,682</u>
	<u>\$ 2,073,962</u>	<u>\$ 2,030,975</u>

11. 401(k) Plan

The Organization maintains a 401(k) plan for all eligible employees. An eligible employee is one that is a U.S. Citizen, has attained the age of twenty-one and has completed six months of service. The Organization makes matching contributions on the first 3% of compensation. The Organization contributed approximately \$44,000 to the plan for the years ended December 31, 2017 and 2016.