

# Audit Report

**International Friendships, Inc.**

**Report on Audited Financial Statements**

For the Years Ended August 31, 2017 and 2016

**INTERNATIONAL FRIENDSHIPS, INC.**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page #</u>
INDEPENDENT AUDITOR'S REPORT	1-2
<u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 13

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
International Friendships, Inc.

### *Report on the Financial Statements*

We have audited the accompanying financial statements of International Friendships, Inc., (a nonprofit organization) which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *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 financial statements that are free from material misstatements 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 International Friendships, Inc., as of August 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.

*Parrino & Company, LLC*

Columbus, Ohio  
December 7, 2017

**INTERNATIONAL FRIENDSHIPS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**As of August 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 488,177	\$ 223,386
Accounts receivable	737	24,275
Prepaid expenses and deposits	<u>18,377</u>	<u>5,845</u>
Total current assets	507,291	253,506
Property and equipment, net	<u>1,298,696</u>	<u>1,305,736</u>
Total assets	<u>\$ 1,805,987</u>	<u>\$ 1,559,242</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 77,181	\$ 110,755
Other current liabilities	35,618	32,325
Notes payable - current	<u>10,339</u>	<u>9,934</u>
Total current liabilities	123,138	153,014
Notes payable - noncurrent	<u>223,095</u>	<u>233,434</u>
Total long-term liabilities	<u>223,095</u>	<u>233,434</u>
Total liabilities	346,233	386,448
Unrestricted net assets	1,454,754	1,172,794
Temporarily restricted net assets	<u>5,000</u>	<u>-</u>
Total net assets	<u>1,459,754</u>	<u>1,172,794</u>
Total liabilities and net assets	<u>\$ 1,805,987</u>	<u>\$ 1,559,242</u>

The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For The Years Ended August 31, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support:						
Contributions	\$ 2,072,380	\$ 5,000	\$ 2,077,380	\$ 1,857,215	\$ -	\$ 1,857,215
Revenues:						
Program participation fees	49,330	-	49,330	47,552	-	47,552
Rental income	77,901	-	77,901	66,918	-	66,918
Miscellaneous income	21,496	-	21,496	31,002	-	31,002
Total public support and revenues	<u>2,221,107</u>	<u>5,000</u>	<u>2,226,107</u>	<u>2,002,687</u>	<u>-</u>	<u>2,002,687</u>
Expenses:						
Program services	1,323,307	-	1,323,307	1,451,217	-	1,451,217
Management & general	315,480	-	315,480	256,738	-	256,738
Fundraising	300,360	-	300,360	75,518	-	75,518
Total expenses	<u>1,939,147</u>	<u>-</u>	<u>1,939,147</u>	<u>1,783,473</u>	<u>-</u>	<u>1,783,473</u>
Change in net assets	281,960	5,000	286,960	219,214	-	219,214
Net assets, beginning	<u>1,172,794</u>	<u>-</u>	<u>1,172,794</u>	<u>953,580</u>	<u>-</u>	<u>953,580</u>
Net assets, ending	<u>\$ 1,454,754</u>	<u>\$ 5,000</u>	<u>\$ 1,459,754</u>	<u>\$ 1,172,794</u>	<u>\$ -</u>	<u>\$ 1,172,794</u>

The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended August 31, 2017**

	Program Services	Support Services		Total
		Management & General	Fundraising	
Salaries	\$ 858,103	175,421	161,834	\$ 1,195,358
Payroll taxes	64,403	13,123	12,106	89,632
Workers' compensation	7,706	1,575	1,453	10,734
Contractors and other fees for services	27,672	45,428	46,312	119,412
Travel	101,564	1,031	15,138	117,733
Hospitality and meals	47,457	1,323	18,016	66,796
Ministry events & activities	19,592	39	8,275	27,906
Conferences and meetings	6,603	1,166	4,082	11,851
Materials and books	10,267	10	-	10,277
Sudan school and clinic	81,721	-	-	81,721
Advertising and promotion	9,253	873	22,401	32,527
Bank charges and merchant fees	16,460	2,616	-	19,076
Office and other supplies	19,094	10,720	3,827	33,641
Information technology	3,742	5,896	6,296	15,934
Occupancy	20,192	15,854	332	36,378
Depreciation	16,297	13,547	288	30,132
Repairs and maintenance	9,521	9,161	-	18,682
Insurance	3,660	8,143	-	11,803
Interest expense	-	9,554	-	9,554
<b>Total</b>	<b>\$ 1,323,307</b>	<b>315,480</b>	<b>300,360</b>	<b>\$ 1,939,147</b>

The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended August 31, 2016**

	Program Services	Support Services		Total
		Management & General	Fundraising	
Salaries	\$ 978,690	138,578	38,006	\$ 1,155,274
Payroll taxes	68,741	14,605	1,765	85,111
Workers' compensation	9,844	1,395	382	11,621
Contractors and other fees for services	32,973	35,727	1,743	70,443
Travel	97,682	1,641	1,046	100,369
Hospitality and meals	56,284	5,866	13,330	75,480
Ministry events & activities	13,773	20	133	13,926
Conferences and meetings	11,458	283	-	11,741
Materials and books	10,808	153	57	11,018
Sudan school and clinic	48,864	-	-	48,864
Advertising and promotion	12,635	1,147	5,870	19,652
Bank charges and merchant fees	9,654	2,837	3,257	15,748
Office and other supplies	22,753	14,685	7,600	45,038
Information technology	7,025	6,581	40	13,646
Occupancy	24,081	6,434	585	31,100
Depreciation	13,840	12,396	710	26,946
Repairs and maintenance	9,448	2,443	183	12,074
Insurance	7,979	5,426	219	13,624
Interest expense	14,685	6,521	592	21,798
<b>Total</b>	<b>\$ 1,451,217</b>	<b>256,738</b>	<b>75,518</b>	<b>\$ 1,783,473</b>

The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For The Years Ended August 31, 2017 and 2016**

	2017	2016
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 286,960	\$ 219,214
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated professional services	-	(38,500)
Depreciation	30,132	26,945
Gain on sale of assets (net)	(336)	-
(Increase) decrease in assets:		
Accounts receivable	23,538	(24,052)
Prepaid expenses and deposits	(12,532)	9,813
Increase (decrease) in liabilities:		
Accounts payable	(33,574)	36,856
Current liabilities	3,293	6,753
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>297,481</b>	<b>237,029</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of and improvements to land and building	(20,772)	(225,546)
Purchase of furniture and equipment	(2,584)	(8,802)
Sale of equipment and other assets	600	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(22,756)</b>	<b>(234,348)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on long-term debt	(9,934)	(315,054)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(9,934)</b>	<b>(315,054)</b>
<b>NET CHANGE IN CASH</b>	<b>264,791</b>	<b>(312,373)</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>223,386</b>	<b>535,759</b>
<b>CASH AND EQUIVALENTS AT END OF YEAR</b>	<b>\$ 488,177</b>	<b>\$ 223,386</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during year for interest	<b>\$ 9,554</b>	<b>\$ 21,798</b>

The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2017 and 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

International Friendships, Inc. (IFI) is a nonprofit corporation created to establish, operate and maintain exclusively for charitable and religious purposes, an organization to facilitate the physical, spiritual and emotional support of international students on university campuses in Ohio and at various locations throughout the United States. This is done by ministering to them, through social activities, friendships, and expression of the love of Christ by testimony and service and to further the propagation of the gospel of Jesus Christ and the edification of His church around the world. IFI is supported mainly through contributions from the public. Additionally, many of IFI's ministry activities are carried out by volunteers at little or no cost to IFI.

The principal office for IFI is at 2500 North High Street, Columbus, Ohio 43202.

Basis of Accounting

The financial statements of IFI have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation

The financial statements are presented in accordance with FASB ASC 958-210-45. Under FASB ASC 958-210-45, IFI is required to report information regarding its financial position, activities, and cash flows according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, IFI's net assets are reported in each of the following three classes:

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 actions of IFI or the passage of time. As of August 31, 2017 and 2016, \$5,000 and \$0, respectively, of IFI's net assets were temporarily restricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by IFI. As of August 31, 2017 and 2016, there were no permanently restricted net assets.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2017 and 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the financial statements, IFI considers all cash held in demand accounts and time deposits maturing within ninety days at the date of purchase as cash equivalents.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. IFI's costs associated with performing fundraising activities are required by generally accepted accounting principles to be reported as fundraising expenses.

Concentration of Credit Risk

Financial instruments, which potentially subject the entity to concentrations of credit risk, consist principally of cash. IFI maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits of \$250,000. IFI has not experienced any losses in such accounts. As of August 31, 2017 and 2016, none of IFI's bank deposits were uninsured and unsecured.

Contributions

IFI receives contributions from its volunteers and the public. Contributions are recorded at their fair market value at the date of contribution. Contributions received are considered unrestricted, unless they are received with donor stipulations that limit the use of the contribution. When the restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2017 and 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

IFI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. Unrelated business income, such as income generated on debt financed property, could be taxable to IFI. No provision for federal income taxes has been made in these financial statements.

Fair Values of Financial Instruments

IFI has financial instruments, principally cash, none of which are held for trading purposes. IFI estimates that the fair value of all financial instruments at August 31, 2017 and 2016 does not differ materially for the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

Depreciation

Property and equipment are stated at cost. Donated items are recorded at their market value at the date the gift is received. Major improvements and betterments are capitalized and depreciated; maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. The capitalization threshold for IFI is \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from three to 40 years.

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to August 31, 2017 to determine the need for any adjustments to or disclosures within the audited financial statements for the year ended August 31, 2017. Management has performed this analysis through December 7, 2017 the date the financial statements were available to be issued.

Reclassifications

IFI has made certain reclassifications to the prior-year Statement of Functional Expenses in order to conform to current-year presentation. These reclassifications had no effect on net position or change in net position.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2017 and 2016**

2. ACCOUNTS RECEIVABLE

IFI had an accounts receivable balance of \$737 and \$24,275 as of August 31, 2017 and 2016. IFI deems balance as of August 31, 2017, which pertains to apartment rental payments and a corporate rewards community program, to be fully collectible.

3. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost or at its estimated fair value at the date of donation, if received as a gift. Depreciation is based on the straight-line method over useful lives ranging from three to 40 years. These assets consist of the following at August 31:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 812,970	\$ 792,197
Land	524,049	524,049
Computers and software	34,411	41,565
Equipment	27,410	29,519
Vehicles	4,200	8,850
Furniture & fixtures	<u>9,205</u>	<u>12,745</u>
	1,412,245	1,408,925
Accumulated depreciation	<u>(113,549)</u>	<u>(103,189)</u>
Property and equipment, net	\$ <u>1,298,696</u>	\$ <u>1,305,736</u>

4. NOTES PAYABLE

In connection with the purchase of property for the Ministry Center, IFI entered into notes payable supported by mortgage agreements. The note agreements began on December 6, 2013 for 2500 N. High note and December 18, 2013 for 2480 N. High. The 2500 N. High note had a variable interest rate based on 5 year treasury rates. The initial interest rate was 4.95%. The 2480 N. High note has a fixed interest rate of 4.00%. The 2500 N. High note was paid in full in June 2016.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2017 and 2016**

4. NOTES PAYABLE (CONTINUED)

Description of Debt	Maturity Date	Interest Rate	Amount Outstanding as of August 31	
			2017	2016
Mortgage note on 2480 N High	12/18/2033	4.00%	\$233,434	\$ 243,368
Total notes payable			\$233,434	\$ 243,368
Current maturities			\$ (10,339)	\$ (9,934)
Notes payable - noncurrent			\$223,095	\$ 233,434

Schedule of expected future principal repayments as of August 31, 2017:

Fiscal Year	<u>Total</u>
2018	\$ 10,339
2019	10,760
2020	11,199
2021	11,655
2022	12,130
All future years	177,351
Total	<u>\$ 233,434</u>

5. UNSECURED LINE OF CREDIT

In September 2016 IFI entered into an agreement with a bank to provide a \$75,000 line of credit at a variable interest rate. There were no borrowings under this agreement in 2017.

6. RENTAL INCOME

IFI leases a portion of its facilities to international students attending universities or to other tenants who are involved in IFI's ministry. One apartment building consists of four rental units leased at \$800 per month per rental unit. The other building is a four-bedroom residential property. The tenants may participate in the activities of IFI and thus help IFI achieve its mission. The units are rented at below market value with lease terms coinciding with the school year. In addition, IFI leases an office suite in its 2500 N. High headquarters to an unrelated business for \$1,465 per month. IFI's property at 2480 N. High was rented for five months of the 2016 fiscal year for \$1600 per month. Rental income for all facilities was \$77,901 and \$66,918 for the periods ending August 31, 2017 and 2016, respectively.

**INTERNATIONAL FRIENDSHIPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2017 and 2016**

7. EMPLOYEE BENEFIT PLAN

IFI maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code available to substantially all employees above the age of 21 who have completed one year of service. Employees of IFI are eligible to contribute a portion of their compensation to the plan, administered by third party providers, in accordance with plan provisions. IFI made no contributions to this plan in 2017 and 2016.

8. DONATED SERVICES

Donated or contributed services are recorded if they meet criteria under FASB ASC 958-605 to (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During a 2016 major renovation of its apartment building, IFI received contributed engineering and management services performed by professional contractors and engineers that satisfy the definition requiring recognition in the financial statements in accordance with FASB ASC 958-605. Consequently, a good faith estimate of market value of \$38,500 for such services has been reflected in the 2016 financial statements as Contributions on the Statement of Activities for donated services. There were no donated services recorded in 2017. IFI generally pays for services requiring specialized skills. In addition, there are individuals who volunteer their time to IFI that do not possess specialized skills.

9. RELATED PARTY TRANSACTION

From June 2016 to December 2016, IFI conducted major renovations to an apartment building used to rent to international students. To complete the renovations, IFI retained a general contracting firm that is owned by a then-current member of IFI's Board of Directors. The agreement with the contractor was done on an arms-length basis and the contractor provided a total of \$38,500 in contributed services. The total amount of the project, \$157,731 at August 31, 2017 and \$138,683 at August 31, 2016, including the noncash donated services, was recorded as Property and Equipment on the Statement of Financial Position.