

Audit Report

International Friendships, Inc.

Report on Audited Financial Statements

For the Years Ended August 31, 2016 and 2015

INTERNATIONAL FRIENDSHIPS, INC.

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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, 2016 and 2015, 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, 2016 and 2015, 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

November 18, 2016
Columbus, Ohio

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENTS OF FINANCIAL POSITION
As of August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 223,386	\$ 535,759
Accounts receivable	24,275	223
Prepaid expenses and deposits	<u>5,845</u>	<u>15,658</u>
Total current assets	253,506	551,640
Property and equipment, net	<u>1,305,736</u>	<u>1,059,833</u>
Total assets	<u>\$ 1,559,242</u>	<u>\$ 1,611,473</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 110,755	\$ 73,899
Other current liabilities	32,325	25,572
Notes payable - current	<u>9,934</u>	<u>20,171</u>
Total current liabilities	153,014	119,642
Notes payable - noncurrent	<u>233,434</u>	<u>538,251</u>
Total long-term liabilities	<u>233,434</u>	<u>538,251</u>
Total liabilities	386,448	657,893
Unrestricted net assets	<u>1,172,794</u>	<u>953,580</u>
Total net assets	<u>1,172,794</u>	<u>953,580</u>
Total liabilities and net assets	<u>\$ 1,559,242</u>	<u>\$ 1,611,473</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, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support:						
Contributions	\$ 1,857,215	\$ -	\$ 1,857,215	\$ 1,665,671	\$ -	\$ 1,665,671
Revenues:						
Program participation fees	47,552	-	47,552	41,543	-	41,543
Rental income	66,918	-	66,918	55,356	-	55,356
Investment income	452	-	452	1,573	-	1,573
Miscellaneous income	30,550	-	30,550	10,161	-	10,161
Total public support and revenues	<u>2,002,687</u>	<u>-</u>	<u>2,002,687</u>	<u>1,774,304</u>	<u>-</u>	<u>1,774,304</u>
Net assets released from restrictions	-	-	-	10,000	(10,000)	-
Total support, revenues and reclass	<u>2,002,687</u>	<u>-</u>	<u>2,002,687</u>	<u>1,784,304</u>	<u>(10,000)</u>	<u>1,774,304</u>
Expenses:						
Program services	1,451,217	-	1,451,217	1,391,140	-	1,391,140
Management & general	256,738	-	256,738	198,779	-	198,779
Fundraising	75,518	-	75,518	88,161	-	88,161
Total expenses	<u>1,783,473</u>	<u>-</u>	<u>1,783,473</u>	<u>1,678,080</u>	<u>-</u>	<u>1,678,080</u>
Change in net assets	219,214	-	219,214	106,224	(10,000)	96,224
Net assets, beginning	<u>953,580</u>	<u>-</u>	<u>953,580</u>	<u>847,356</u>	<u>10,000</u>	<u>857,356</u>
Net assets, ending	<u>\$ 1,172,794</u>	<u>\$ -</u>	<u>\$ 1,172,794</u>	<u>\$ 953,580</u>	<u>\$ -</u>	<u>\$ 953,580</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, 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
Student trips	37,375	-	-	37,375
Ministry partner development	15,021	5,505	11,697	32,223
Auto expenses	60,307	1,641	1,046	62,994
Postage	7,333	2,837	4,819	14,989
Telephone and internet	11,556	4,211	480	16,247
Legal, accounting and professional fees	4,321	22,236	1,672	28,229
Office and other supplies	7,696	9,488	2,301	19,485
Printing and reproduction	9,733	1,068	5,870	16,671
Materials and books	10,808	153	57	11,018
Hospitality	32,079	108	22	32,209
Rent expense	3,110	-	-	3,110
Meals and entertainment	9,184	253	1,611	11,048
Ministry events & activities	13,773	20	133	13,926
Sudan School supplies and expenses	48,864	-	-	48,864
Insurance	7,979	5,426	219	13,624
Interest expense	14,685	6,521	592	21,798
Property taxes	13,864	987	90	14,941
Repairs and maintenance	9,448	2,443	183	12,074
Utilities	7,107	5,447	495	13,049
Depreciation	13,840	12,396	710	26,946
Bank charges and merchant fees	9,654	2,837	3,257	15,748
Honorarium and gifts	2,902	79	-	2,981
Training	11,458	283	-	11,741
Dues and subscriptions	3,193	4,730	40	7,963
Miscellaneous expense	28,652	13,491	71	42,214
Total	\$ 1,451,217	256,738	75,518	\$ 1,783,473

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

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2015

	Program Services	Support Services		Total
		Management & General	Fundraising	
Salaries	\$ 961,874	91,676	57,843	\$ 1,111,393
Payroll taxes	70,684	11,452	52	82,188
Workers' Compensation	8,819	841	530	10,190
Student trips	28,375	-	-	28,375
Ministry partner development	9,014	300	7,944	17,258
Auto expenses	62,831	1,370	795	64,996
Postage	7,888	3,591	6,188	17,667
Telephone and internet	10,134	3,492	480	14,106
Legal, accounting and professional fees	3,624	29,123	2,085	34,832
Office and other supplies	12,014	6,225	2,462	20,701
Printing and reproduction	6,727	600	6,022	13,349
Materials and books	15,125	202	24	15,351
Hospitality	24,236	-	-	24,236
Rent expense	4,675	-	-	4,675
Meals and entertainment	10,817	70	117	11,004
Ministry events & activities	13,128	-	-	13,128
Sudan School supplies and expenses	21,196	-	-	21,196
Insurance	8,131	5,317	223	13,671
Interest expense	16,578	8,614	783	25,975
Property taxes	19,259	6,306	573	26,138
Repairs and maintenance	4,982	3,050	234	8,266
Utilities	8,210	5,391	490	14,091
Depreciation	16,246	12,002	411	28,659
Bank charges and merchant fees	10,352	2,016	843	13,211
Honorarium and gifts	2,460	16	-	2,476
Training	8,278	-	-	8,278
Dues and subscriptions	2,701	3,068	49	5,818
Miscellaneous expense	22,782	4,057	13	26,852
Total	\$ 1,391,140	198,779	88,161	\$ 1,678,080

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

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 219,214	\$ 96,224
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Donated Goods and Services	(38,500)	(4,200)
Depreciation	26,945	28,659
(Increase) decrease in assets:		
Accounts receivable	(24,052)	341
Prepaid expenses and deposits	9,813	(11,895)
(Increase) decrease in liabilities:		
Accounts payable	36,856	16,044
Current liabilities	<u>6,753</u>	<u>3,280</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	237,029	128,453
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of and improvements to land & building	(225,546)	(2,850)
Purchase of furniture & equipment	<u>(8,802)</u>	<u>(4,526)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(234,348)</u>	<u>(7,376)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on long-term debt	<u>(315,054)</u>	<u>(22,694)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(315,054)</u>	<u>(22,694)</u>
NET CHANGE IN CASH	(312,373)	98,383
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>535,759</u>	<u>437,376</u>
CASH AND EQUIVALENTS AT END OF YEAR	\$ <u>223,386</u>	\$ <u>535,759</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during year for interest	<u>\$ 21,798</u>	<u>\$ 25,975</u>

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, 2016 and 2015

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 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.

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, 2016 and 2015, there were no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by IFI. As of August 31, 2016 and 2015, there were no permanently restricted net assets.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015

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.

IFI's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

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, 2016 and 2015 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, 2016 to determine the need for any adjustments to or disclosures within the audited financial statements for the year ended August 31, 2016. Management has performed this analysis through November 18, 2016 the date the financial statements were available to be issued.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2016 and 2015

2. ACCOUNTS RECEIVABLE

IFI had an accounts receivable balance of \$24,275 and \$223, as of August 31, 2016 and 2015. IFI deems balance as of August 31, 2016, which pertains to apartment rental payments and property tax refunds from prior years, 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>2016</u>	<u>2015</u>
Buildings	\$ 792,197	\$ 551,400
Land	524,049	500,800
Computers and software	41,565	40,910
Equipment	29,519	30,598
Vehicles	8,850	8,850
Furniture & fixtures	<u>12,745</u>	<u>12,745</u>
	1,408,925	1,145,303
Accumulated depreciation	<u>(103,189)</u>	<u>(85,470)</u>
Property and equipment, net	\$ <u>1,305,736</u>	\$ <u>1,059,833</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 has a variable interest rate based on 5 year treasury rates. The initial interest rate was 4.95% and will reset every five years. 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. The note on 2480 N. High has a \$10,000 prepayment penalty if paid before December 31, 2016.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2016 and 2015

4. NOTES PAYABLE (CONTINUED)

Description of Debt	Maturity Date	Interest Rate	Amount Outstanding as of August 31	
			2016	2015
Mortgage note on 2500 N High	12/6/2033	4.95%	\$ -	\$ 305,508
Mortgage note on 2480 N High	12/18/2033	4.00%	\$ 243,368	\$ 252,914
Total notes payable			\$ 243,368	\$ 558,422
Current maturities			\$ (9,934)	\$ (20,171)
Notes payable - noncurrent			\$ 233,434	\$ 538,251

Schedule of expected future principal repayments as of August 31, 2016:

Fiscal Year	Total
2017	\$ 9,934
2018	10,339
2019	10,760
2020	11,199
2021	11,655
All future years	189,481
Total	<u>\$ 243,368</u>

5. RENTAL INCOME

IFI leases a portion of its facilities to international students attending The Ohio State University or to other tenants who are involved in IFI's ministry. The apartment building consists of four rental units leased at \$800 per month per rental unit. 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 of 12 months. 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 was \$66,918 and \$55,356 for the periods ending August 31, 2016 and 2015, respectively.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2016 and 2015

6. 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.

7. 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. 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.

8. RELATED PARTY TRANSACTION

In fiscal year 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 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 including the noncash donated services, was \$138,683 and was recorded as Property and Equipment on the Statement of Financial Position at August 31, 2016.