

Audit Report

International Friendships, Inc.

Report on Audited Financial Statements

For the Years Ended August 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 28, 2015

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENTS OF FINANCIAL POSITION
As of August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 535,759	\$ 437,376
Accounts receivable	223	564
Prepaid expenses and deposits	<u>15,658</u>	<u>3,763</u>
Total current assets	551,640	441,703
Property and equipment, net	<u>1,059,833</u>	<u>1,076,916</u>
Total assets	<u>\$ 1,611,473</u>	<u>\$ 1,518,619</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 73,899	\$ 57,855
Other current liabilities	25,572	22,292
Notes payable - current	<u>20,171</u>	<u>19,285</u>
Total current liabilities	119,642	99,432
Notes payable - noncurrent	<u>538,251</u>	<u>561,831</u>
Total long-term liabilities	<u>538,251</u>	<u>561,831</u>
Total liabilities	657,893	661,263
Unrestricted net assets	953,580	847,356
Temporarily restricted net assets	<u>-</u>	<u>10,000</u>
Total net assets	<u>953,580</u>	<u>857,356</u>
Total liabilities and net assets	<u>\$ 1,611,473</u>	<u>\$ 1,518,619</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, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support:						
Contributions	\$ 1,665,671	\$ -	\$ 1,665,671	\$ 1,594,564	\$ 10,000	\$ 1,604,564
Revenues:						
Program Participation Fees	41,543	-	41,543	137,607	-	137,607
Rental Income	55,356	-	55,356	47,228	-	47,228
Excess of assets acquired over liabilities assumed in donation of IF ministry	-	-	-	33,756	-	33,756
Investment Income	1,573	-	1,573	1,371	-	1,371
Miscellaneous Income	10,161	-	10,161	6,256	-	6,256
Total public support and revenues	<u>1,774,304</u>	<u>-</u>	<u>1,774,304</u>	<u>1,820,782</u>	<u>10,000</u>	<u>1,830,782</u>
Net assets released from restrictions	10,000	(10,000)	-	-	-	-
Total support, revenues and reclass	<u>1,784,304</u>	<u>(10,000)</u>	<u>1,774,304</u>	<u>1,820,782</u>	<u>10,000</u>	<u>1,830,782</u>
Expenses:						
Program Services	1,391,140	-	1,391,140	1,372,818	-	1,372,818
Management & general	198,779	-	198,779	193,924	-	193,924
Fundraising	88,161	-	88,161	90,361	-	90,361
Total expenses	<u>1,678,080</u>	<u>-</u>	<u>1,678,080</u>	<u>1,657,103</u>	<u>-</u>	<u>1,657,103</u>
Change in net assets from operations	106,224	(10,000)	96,224	163,679	10,000	173,679
Nonoperating gain on sale of assets (net)	-	-	-	84,388	-	84,388
Change in net assets	106,224	(10,000)	96,224	248,067	10,000	258,067
Net assets, beginning	<u>847,356</u>	<u>10,000</u>	<u>857,356</u>	<u>599,289</u>	<u>-</u>	<u>599,289</u>
Net assets, ending	<u>\$ 953,580</u>	<u>\$ -</u>	<u>\$ 953,580</u>	<u>\$ 847,356</u>	<u>\$ 10,000</u>	<u>\$ 857,356</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, 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.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2014

	Program Services	Support Services		Total
		Management & General	Fundraising	
Salaries	\$ 884,886	84,942	49,980	\$ 1,019,808
Payroll taxes	65,497	11,643	-	77,140
Employee benefits	39,474	1,784	4,618	45,876
Workers' Compensation	11,234	1,079	634	12,947
Student trips	112,270	-	-	112,270
Ministry partner development	13,341	-	14,485	27,826
Auto expenses	50,254	1,851	964	53,069
Postage	5,879	909	5,468	12,256
Telephone and internet	8,120	3,326	480	11,926
Legal, accounting and professional fees	14,592	16,288	900	31,780
Office and other supplies	9,587	7,754	825	18,166
Printing and reproduction	8,071	14	4,441	12,526
Materials and books	12,373	-	14	12,387
Hospitality	21,035	-	-	21,035
Rent expense	7,624	-	-	7,624
Meals and entertainment	5,636	435	104	6,175
Ministry events & activities	10,130	-	-	10,130
Insurance	4,882	6,128	287	11,297
Interest expense	13,937	5,859	533	20,329
Property taxes	10,662	6,957	632	18,251
Repairs and maintenance	3,624	1,970	174	5,768
Utilities	8,849	9,497	607	18,953
Depreciation	12,460	14,469	250	27,179
Bank charges and merchant fees	7,012	1,721	3,124	11,857
Honorarium and gifts	3,842	39	365	4,246
Training	4,939	45	-	4,984
Dues and subscriptions	750	2,441	-	3,191
Miscellaneous expense	21,858	14,773	1,476	38,107
Total	\$ 1,372,818	193,924	90,361	\$ 1,657,103

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

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 96,224	\$ 258,067
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Gain on sale of assets (net)	-	(84,388)
Donated Goods and Services	(4,200)	(5,500)
Depreciation	28,659	27,179
(Increase) decrease in assets:		
Accounts receivable	341	(559)
Prepaid expenses and deposits	(11,895)	6,305
(Increase) decrease in liabilities:		
Accounts payable	16,044	9,639
Current liabilities	3,280	17,482
	<u>128,453</u>	<u>228,225</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>128,453</u>	<u>228,225</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of land & building	(2,850)	(1,043,829)
Sale of land & building	-	199,798
Purchase of furniture & equipment	(4,526)	(13,507)
Sale of furniture & equipment	-	4,529
	<u>(7,376)</u>	<u>(853,009)</u>
<u>NET CASH USED IN INVESTING ACTIVITIES</u>	<u>(7,376)</u>	<u>(853,009)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of long-term debt	-	859,100
Principal payments on long-term debt	(22,694)	(277,984)
	<u>(22,694)</u>	<u>581,116</u>
<u>NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES</u>	<u>(22,694)</u>	<u>581,116</u>
NET CHANGE IN CASH	98,383	(43,668)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>437,376</u>	<u>481,044</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 535,759</u>	<u>\$ 437,376</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during year for interest	<u>\$ 25,975</u>	<u>\$ 20,329</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, 2015 and 2014

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 Columbus, 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.

Effective January 1, 2014 IFI acquired the ministry of International Friends, (IF) of Cleveland, Ohio. The reason for the combination was that both nonprofit organizations share a similar mission, purpose and method of ministry.

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, 2015 and 2014, \$0 and \$10,000, 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, 2015 and 2014, there were no permanently restricted net assets.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2015 and 2014

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.

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, 2015 and 2014, none of IFI's bank deposits were uninsured and unsecured.

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.

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, 2015 and 2014

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 2012, 2013 and 2014 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, 2015 and 2014 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, 2015 to determine the need for any adjustments to or disclosures within the audited financial statements for the year ended August 31, 2015. Management has performed this analysis through December 28, 2015 the date the financial statements were available to be issued.

Reclassifications

IFI has made certain reclassifications to the prior-year financial statements 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, 2015 and 2014

2. ACCOUNTS RECEIVABLE

IFI had an accounts receivable balance of \$223 and \$564, as of August 31, 2015 and 2014. IFI deems balance as of August 31, 2015, which pertains to apartment rental payments, to be fully collectable.

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>2015</u>	<u>2014</u>
Buildings	\$ 551,400	\$ 548,550
Land	500,800	500,800
Computers and software	40,910	40,696
Equipment	30,598	33,119
Vehicles	8,850	4,650
Furniture & fixtures	<u>12,745</u>	<u>12,745</u>
	1,145,303	1,140,560
Accumulated depreciation	<u>(85,470)</u>	<u>(63,644)</u>
Property and equipment, net	\$ <u>1,059,833</u>	\$ <u>1,076,916</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%. There is a declining prepayment penalty (3% in 2014, 2% in 2015, and 1% in 2016) on the note for 2500 N. High if it is refinanced before December 6, 2016. There is no prepayment penalty after December 6, 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, 2015 and 2014

4. NOTES PAYABLE (CONTINUED)

Description of Debt	Maturity Date	Interest Rate	Amount Outstanding as of August 31	
			2015	2014
Mortgage note on 2500 N High	12/6/2033	4.95%	\$305,508	\$ 319,031
Mortgage note on 2480 N High	12/18/2033	4.00%	\$252,914	\$ 262,085
Total notes payable			\$558,422	\$ 581,116
Current maturities			\$ (20,171)	\$ (19,285)
Notes payable - noncurrent			\$538,251	\$ 561,831

Schedule of expected future principal repayments as of August 31, 2015:

Fiscal Year	<u>2500 N High</u>	<u>2480 N High</u>	<u>Total</u>
2016	\$ 10,625	\$ 9,546	\$ 20,171
2017	11,164	9,934	21,098
2018	11,729	10,339	22,068
2019	12,323	10,760	23,083
2020	13,155	11,349	24,504
All future years	246,512	200,986	447,498
Total	\$ 305,508	\$ 252,914	\$ 558,422

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. On December 31st, 2013, IFI acquired a new apartment building with four units; and on February 20th, 2014, IFI sold the old office building, along with the leased facilities attached. The old leased facilities consisted of four rental units with lease amounts ranging from \$390 to \$415 per month per rental unit. The new apartment building consists of four rental units leased at \$800 per month per rental unit. The tenants participate in the activities of IFI and help IFI achieve its mission. The units are rented at below market value with lease terms of 12 months. In addition, IFI acquired a new office building on December 6th, 2013, and leased an office suite to an unrelated business for \$1,421 per month. Rental income was \$55,356 and \$47,228 for the periods ending August 31, 2015 and 2014, respectively.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2015 and 2014

6. ACQUISITION OF MINISTRY

Effective January 1, 2014 IFI acquired the ministry of International Friends, (IF) of Cleveland, Ohio. The reason for the combination was that both nonprofit organizations share a similar mission, purpose and method of ministry. The two employees of IF at the time of the acquisition were former IFI staff members and with the combination they became IFI employees. The combination allowed IFI to expand ministry to new campuses in northeast Ohio and allowed IF to achieve administrative efficiency.

IFI, as the acquirer, will continue to exist to facilitate the physical, spiritual and emotional support of international students on university campuses in Columbus, Ohio and throughout the United States.

The principal office for IFI shall be at 2500 North High Street, Columbus, OH 43202.

All assets and liabilities of IF, the Cleveland ministry at the time of the acquisition, were transferred to the surviving entity, IFI. The excess of assets acquired over liabilities assumed in donation of IF ministry at the time of the transfer was a contribution of \$33,756. The fair values of major classes of assets and liabilities on the acquisition date are as follows:

Cash	\$ 46,141
Prepaid assets	<u>250</u>
Total current assets	46,391
Property and equipment, net	<u>671</u>
Total assets	\$ <u><u>47,062</u></u>
Current liabilities	\$ <u>13,306</u>
Total liabilities	<u>13,306</u>
Excess of assets acquired over liabilities assumed	<u><u>33,756</u></u>

7. EMPLOYEE BENEFIT PLAN

IFI maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code covering 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.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended August 31, 2015 and 2014

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 the renovation of its new office building, IFI received contributed wiring services performed by professional electricians 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 \$5,500 for such services has been reflected in the financial statements as Contributions on the Statement of Activities for donated services. IFI generally pays for services requiring specialized skills. However, there are individuals who volunteer their time to IFI that do not possess specialized skills.

9. RELATED PARTY TRANSACTION

In connection with the purchase of apartments to be rented to international students, IFI conducted a transaction with a related party. IFI purchased rental apartments from a then-current member of the Board of Directors. The transaction was an arms-length transaction with no gain or loss incurred by the then-current Board member. To enable IFI to purchase the apartments, the Board member purchased the apartments and then sold them to IFI at his cost. IFI had a loan outstanding for 4 ½ months from the Board member. The interest rate paid by IFI was the same as the rate on other property purchased from unrelated parties.