

Audit Report

International Friendships, Inc.

Report on Audited Financial Statements

For the Years Ended August 31, 2022 and 2021

INTERNATIONAL FRIENDSHIPS, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
International Friendships, Inc.

Opinion

We have audited the accompanying financial statements of International Friendships, Inc. (IFI), (a nonprofit organization), which comprise the statements of financial position as of August 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of International Friendships, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about International Friendships, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITOR'S REPORT - CONTINUED*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 International Friendships, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about International Friendships, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Parms & Company, LLC

Columbus, Ohio
March 28, 2023

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENTS OF FINANCIAL POSITION
As of August 31, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
Current Assets		
Cash	\$ 1,619,690	\$ 1,406,145
Accounts receivable	61,578	3,554
Prepaid expenses & deposits	40,350	41,732
Total current assets	1,721,618	1,451,431
Property and Equipment, Net	2,279,172	1,188,603
Total Assets	\$ 4,000,790	\$ 2,640,034
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 96,740	\$ 65,703
Accounts payable - construction	1,011,634	-
Other current liabilities	87,366	80,393
Notes payable - current	23,692	22,812
Total current liabilities	1,219,432	168,908
Notes Payable - Noncurrent	214,724	238,416
Total Liabilities	1,434,156	407,324
Net Assets		
Net assets without donor restrictions	2,559,134	2,215,910
Net assets with donor restrictions	7,500	16,800
Total net assets	2,566,634	2,232,710
Total Liabilities and Net Assets	\$ 4,000,790	\$ 2,640,034

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, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support:						
Contributions	\$ 3,782,580	\$ 10,000	\$ 3,792,580	\$ 3,039,873	\$ 16,800	\$ 3,056,673
Nonmonetary contributions	4,850	-	4,850	16,870	-	16,870
Covid-related grants and contributions from governments	164	-	164	123,012	-	123,012
Revenues:						
Program participation fees	67,292	-	67,292	19,798	-	19,798
Rental income	106,327	-	106,327	76,324	-	76,324
Miscellaneous income	51,104	-	51,104	46,978	-	46,978
Total public support and revenues	4,012,317	10,000	4,022,317	3,322,855	16,800	3,339,655
Net Assets Released from Restrictions:	19,300	(19,300)	-	1,730	(1,730)	-
Total Support, Revenues and Released	4,031,617	(9,300)	4,022,317	3,324,585	15,070	3,339,655
Expenses:						
Program services	2,896,470	-	2,896,470	2,265,084	-	2,265,084
Management & general	730,199	-	730,199	618,360	-	618,360
Fundraising	373,140	-	373,140	303,217	-	303,217
Total expenses	3,999,809	-	3,999,809	3,186,661	-	3,186,661
Change in Net Assets from Operations	31,808	(9,300)	22,508	137,924	15,070	152,994
Gain from insurance recovery	311,696	-	311,696	-	-	-
Gain(loss) on sale of assets, net	(280)	-	(280)	412	-	412
Change in Net Assets	343,224	(9,300)	333,924	138,336	15,070	153,406
Net Assets, Beginning	2,215,910	16,800	2,232,710	2,077,574	1,730	2,079,304
Net Assets, Ending	\$ 2,559,134	\$ 7,500	\$ 2,566,634	\$ 2,215,910	\$ 16,800	\$ 2,232,710

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

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended August 31, 2022

	Program Services	Management & General	Fundraising	Total
Ministry Personnel:				
Salaries	\$ 1,951,133	\$ 468,934	\$ 230,928	\$ 2,650,995
Payroll taxes	144,325	34,687	17,082	196,094
Workers' compensation	21,091	5,069	2,496	28,656
Employee benefits	53,660	7,707	-	61,367
Contractors and other fees for services	36,702	43,861	10,000	90,563
Direct Student Ministry:				
Travel	165,250	2,193	20,338	187,781
Hospitality and meals	116,560	1,825	30,781	149,166
Ministry events and activities	29,246	-	589	29,835
Conferences and meetings	27,608	2,421	6,198	36,227
Materials and books	13,570	1,839	1,044	16,453
Sudan school and clinic	154,662	-	-	154,662
Ministry Operations:				
Advertising and promotion	10,499	957	34,390	45,846
Bank charges and merchant fees	30,259	12,619	165	43,043
Office and other supplies	24,419	14,271	9,129	47,819
Information technology	27,736	22,597	7,997	58,330
Ministry Overhead:				
Occupancy	21,022	38,663	152	59,837
Depreciation	21,102	34,376	1,851	57,329
Repairs and maintenance	42,874	17,244	-	60,118
Insurance	4,752	11,497	-	16,249
Interest expense	-	9,439	-	9,439
Total	\$ 2,896,470	\$ 730,199	\$ 373,140	\$ 3,999,809

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

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended August 31, 2021

	Program Services	Management & General	Fundraising	Total
Ministry Personnel:				
Salaries	\$ 1,615,674	\$ 390,791	\$ 191,631	\$ 2,198,096
Payroll taxes	123,906	29,969	14,696	168,571
Workers' compensation	18,605	4,500	2,207	25,312
Contractors and other fees for services	22,707	43,886	3,277	69,870
Direct Student Ministry:				
Travel	61,212	46	15,516	76,774
Hospitality and meals	71,818	588	5,452	77,858
Ministry events and activities	31,699	108	22	31,829
Conferences and meetings	30,550	2,237	7,639	40,426
Materials and books	14,332	131	820	15,283
Sudan school and clinic	119,238	-	-	119,238
Ministry Operations:				
Advertising and promotion	12,332	116	37,488	49,936
Bank charges and merchant fees	22,516	12,994	12	35,522
Office and other supplies	21,255	12,227	10,468	43,950
Information technology	43,797	9,628	12,277	65,702
Ministry Overhead:				
Occupancy	14,883	33,490	148	48,521
Depreciation	21,188	33,766	1,564	56,518
Repairs and maintenance	15,115	21,874	-	36,989
Insurance	4,257	10,499	-	14,756
Interest expense	-	11,510	-	11,510
Total	<u><u>\$ 2,265,084</u></u>	<u><u>\$ 618,360</u></u>	<u><u>\$ 303,217</u></u>	<u><u>\$ 3,186,661</u></u>

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

INTERNATIONAL FRIENDSHIPS, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended August 31, 2022 and 2021

	2022	2021
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 333,924	\$ 153,406
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Nonmonetary contributions of assets	-	(2,200)
Depreciation	57,329	56,518
Property casualty gain from insurance recovery	(261,696)	-
(Gain) loss on sale of assets (net)	280	(412)
(Increase) decrease in assets:		
Accounts receivable	(58,024)	2,569
Prepaid expenses and deposits	1,382	(4,269)
Increase (decrease) in liabilities:		
Accounts payable	31,037	16,044
Other current liabilities	6,973	(1,597)
NET CASH PROVIDED BY OPERATING ACTIVITIES	111,205	220,059
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of and improvements to land and building	(363,110)	(17,022)
Property casualty insurance proceeds	500,000	-
Purchase of furniture and equipment	(11,935)	(16,069)
Sale of equipment and other assets	197	488
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	125,152	(32,603)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of long-term debt	-	268,439
Principal payments on long-term debt	(22,812)	(304,385)
NET CASH USED IN FINANCING ACTIVITIES	(22,812)	(35,946)
NET CHANGE IN CASH	213,545	151,510
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	1,406,145	1,254,635
CASH AND EQUIVALENTS AT END OF YEAR	\$ 1,619,690	\$ 1,406,145
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during year for interest	\$ 9,512	\$ 11,782

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, 2022 and 2021

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.

The principal office for IFI is at 1520 Old Henderson Rd., Suite 200, Columbus, Ohio 43220. This is the location of the IFI headquarters.

IFI has one main program that is called International Student Ministry, or ISM. Examples of primary ISM activities are described below. Many of IFI's ISM activities are carried out by volunteers at little or no cost to IFI.

Campus Ministry Teams, made up of employees and volunteers work to serve, teach, and mentor international students, scholars, and their families out of love for Jesus. The employees and volunteers organize activities such as Welcome Events that make students feel at home in the United States. Further engagement with students includes English Conversation Clubs that provide conversation partners to help international students and scholars and their spouses improve their English speaking and listening skills and help them navigate the complexities of American language and culture. Campus Ministry Teams also organize low-cost, fun, interesting and varied trips for international students and scholars. Some are day trips; others are weekend trips; and others are extended tours of different parts of the United States. The objectives of the trips are to: 1) allow internationals to experience the beautiful American scenery and the diversity of American culture along with the opportunity to stay in American homes and experience hospitality prescribed by Jesus; 2) develop friendships between international students; 3) provide opportunities for spiritual conversations in a relaxed and fun environment. IFI also provides internships for recently graduated, spiritually vibrant international students during their optional training year. This includes assisting with finding housing and/or employment for some of the student leaders involved in internships, and taking internationals to conferences about following Jesus to encourage their spiritual growth and develop deeper friendships.

Another aspect of ISM involves IFI working with churches to help them fulfill their desire to love the stranger and impact the world by providing a means for them to practice Biblical hospitality. IFI employees work closely with volunteers from local churches to provide training and coordination so the churches and volunteers can offer various services that address the social, cultural, and spiritual interests and needs of international students and scholars.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Organization (Continued)

The objectives for engaging churches and volunteers are: 1) to train them in fulfilling God's command to "love the strangers among us" in practical ways (short-term); and 2) to serve as a bridge between people interested in impacting people in other countries and their opportunity to impact people from other countries while they are here locally.

Changes in IFI Operations during 2020, extending through 2022

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. Due to the state of emergency declaration universities and religious organizations were shut down. IFI's operations are directly impacted through their programs at universities and religious organizations. While many face-to-face activities ceased abruptly, many of IFI's ISM activities were able to continue using digital means. IFI campus ministers and volunteers have been creatively connecting with students through social media and personally while practicing safe social distancing. Some program costs, such as travel and hospitality meals, were reduced due to the emergency measures. Successful livestream fundraising events and student activities have been conducted and IFI made appropriate changes to adjust to the pandemic environment. During summer 2021 some restrictions were eased and certain in-person events and activities restarted and continued through 2022. Additional financial impact of COVID-19 and the ensuing emergency measures on IFI's operations cannot be fully determined at this time, but are not expected to be significant.

Basis of Accounting

The financial statements of IFI have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, also known as US GAAP.

Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016. Under FASB ASC 958, IFI is required to report information regarding its financial position, activities, and cash flows according to two classes of net assets: without donor restrictions or with donor restrictions. Accordingly, IFI's net assets are reported in the following two classes:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations that may be used for any purpose in performing the mission of IFI.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial Statement Presentation (Continued)

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of IFI or the passage of time. Net assets also may be subject to donor-imposed stipulations that they be maintained permanently by IFI. As of August 31, 2022 and 2021, there were no permanently restricted net assets.

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 US 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 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. When IFI personnel work on both program and support functions, the salaries and related payroll taxes are allocated based on time spent. A portion of the office building is allocated in the depreciation and occupancy accounts based on square feet being used by each function. IFI's costs associated with performing fundraising activities are required by US GAAP to be reported as fundraising expenses, even though some fundraising activities also serve a program function.

Concentration of Credit Risk

Financial instruments, which potentially subject the entity to concentrations of credit risk, consist principally of cash and cash equivalents. IFI maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits of \$250,000. As of August 31, 2022, IFI's main operating account had \$336,215 above the federal insurance limit. IFI also maintains a money market account in which deposited funds are distributed across a network of participating banking institutions, thus, benefiting from the insurance coverage provided by FDIC. IFI also has a short-term investment of \$500,000 with a non-profit organization that is not federally insured. As of August 31, 2021, none of IFI's bank deposits were uninsured and unsecured.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Concentration of Credit Risk (Continued)

IFI has not experienced any losses in such accounts. Credit risk associated with accounts receivable is considered to be limited and insignificant due to the nature of the revenue streams.

Contributions

IFI receives contributions from its volunteers and the public. Unconditional contributions are recognized when promised and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are generally reported as net assets without donor restriction. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets, and the assets are placed in service.

Covid-related grants and contributions from governments are accounted for as conditional contributions or unconditional contributions, as appropriate for the circumstances. Unconditional contributions received in October and December 2020 were from the State of Ohio Bureau of Workers' Compensation at the request of the Governor of Ohio.

Nonmonetary Contributions

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. In 2022, IFI received \$550 of donated photography services used during an event and also records certain material in-kind donations, such as the use of church or university facilities for ISM large group activities, or certain office space provided without charge. The fair value of such in-kind donations amounted to \$4,300. These amounts are shown as nonmonetary contributions with an equal nonmonetary expense recorded as part of total expenses in the Statements of Activities and Changes in Net Assets. In 2021, IFI received \$2,200 of donated services in connection with the remodeling of the Ministry house. IFI generally pays for services requiring specialized skills.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Nonmonetary Contributions (Continued)

Volunteers, who do not possess specialized skills, contribute significant amounts of time and travel to fulfill ISM program services and donate the use of their homes and food for hospitality activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by US GAAP.

Income Taxes

IFI is organized in Ohio as a nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code (IRC). Donations to IFI qualify for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi). IFI is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. IFI also files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income when appropriate. 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, 2022 and 2021 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 50 years.

2. **NET ASSETS**

IFI's net assets with donor restrictions limiting their use to a specific purpose or time were \$7,500 at August 31, 2022 and \$16,800 at August 31, 2021.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

3. **LIQUIDITY AND AVAILABILITY**

The following table reflects the IFI's financial assets as of the balance sheet date, reduced by amounts not available for general use because purpose restrictions within one year of the balance sheet date and rental deposits that are expected to be retained.

	<u>2022</u>	<u>2021</u>
Current assets, at year end	\$1,721,618	\$1,451,431
Less those unavailable for general expenditures within one year, due to donor restrictions		
Cash with donor restriction	7,500	16,800
Current liabilities, at year end	1,219,432	168,908
Add rental deposits expected to be retained	-	6,178
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 494,686</u>	<u>\$1,271,901</u>

Additional liquidity is provided to IFI through an agreement with its primary bank to provide a \$75,000 unsecured line of credit at a variable interest rate. There were no borrowings under this agreement in 2022 or 2021.

4. **ACCOUNTS RECEIVABLE**

IFI had an accounts receivable balance of \$61,578 and \$3,554 as of August 31, 2022 and 2021, respectively. IFI deems the balance as of August 31, 2022, which includes a property tax refund and a partner sponsorship, to be fully collectible. A receivable from the insurance company for lost rent revenue due to a fire incident was also included in the balance amounting to \$12,638, deemed to be fully collectible as well.

5. **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 50 years. These assets consist of the following at August 31:

	<u>2022</u>	<u>2021</u>
Buildings	\$ 849,735	\$1,082,754
Construction in Progress - Building Improvements	1,374,744	-
Land	113,255	113,255
Computer Equipment	43,134	33,299
Computer Software	26,298	26,298
Office Equipment	22,248	57,549
Vehicles	3,700	3,700
Furniture & fixtures	-	26,798
	<u>2,433,114</u>	<u>1,343,653</u>
Accumulated depreciation	<u>(153,942)</u>	<u>(155,050)</u>
Property and equipment, net	<u>\$ 2,279,172</u>	<u>\$ 1,188,603</u>

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

6. **CASUALTY LOSS DUE TO FIRE AT IFI HEADQUARTERS BUILDING**

On June 3, 2022, IFI had a fire in one unit of the headquarters building, in one office rented to unaffiliated tenants. The fire and the emergency extinguishment caused significant smoke and soot damage throughout the building. Essentially all walls, floor coverings and ceilings, along with various pieces of office equipment and furniture & fixtures were damaged. IFI wrote off the carrying value of these impaired assets.

IFI's property insurance covered this casualty loss including but not limited to the renovation costs, business interruption expenses and lost revenues. As of August 31, 2022, total insurance proceeds for property damage amounted to \$500,000. This exceeded the \$238,304 property loss recorded pertaining to the written off carrying value of impaired assets. Thus, a gain of \$261,696 has been recognized in relation to the insurance claims. IFI also received \$50,000 insurance proceeds for business interruption expenses, also recorded as part of gain from insurance claims. IFI also received \$10,000 insurance proceeds for lost rent revenue.

The proceeds for property damage and business interruption were presented in the Statements of Activities and Changes in Net Assets under gain from insurance recovery, net of the written off carrying value of the impaired assets. The insurance proceeds for the lost revenue were recorded as payments of the accrued rental income from the occurrence of the incident, until August 31, 2022.

IFI is currently not able to estimate the total financial impact, however, the additional business expenses and building renovations are expected to be recovered when paid and lost rental income is expected to be recovered over the next 12 months or longer.

7. **COMPENSATED ABSENCES**

Compensated absences, such as vacation, are not accrued because the amount cannot be reasonably estimated. The vacation hours are calculated based on the calendar year and not the fiscal year. Unused vacation rollover is limited based on a number of factors, including funding, is not guaranteed and is generally not paid out when employment ends.

8. **EMPLOYEE BENEFIT PLAN**

IFI maintains a limited relationship with a provider of a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. One IFI employee participates and contributes a portion of their compensation to the plan, administered by the third-party provider, in accordance with plan provisions. IFI made no contributions to this plan in 2022 and 2021.

INTERNATIONAL FRIENDSHIPS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended August 31, 2022 and 2021

9. **NOTES PAYABLE**

On March 25, 2021, IFI entered into a Term Note supported by a mortgage agreement on the IFI headquarters property. The note has a fixed rate of 3.74% and is payable in 120 monthly installments of \$2,693.69 ending April 1, 2031. There is a prepayment penalty with the note in decreasing amounts over the first five years of the loan.

Description of Debt	Maturity Date	Interest Rate	Amount Outstanding as of August 31	
			2022	2021
Mortgage note on 1520 Old Henderson Rd	04/01/2031	3.74%	\$238,416	\$261,228
Current maturities			23,692	22,812
Notes payable – noncurrent			\$214,724	\$238,416

Schedule of expected future principal repayments as of August 31, 2022:

<u>Fiscal Year</u>	<u>Total</u>
2023	\$ 23,692
2024	24,585
2025	25,555
2026	26,541
2027	27,565
2028 - 2031	110,478
Total	<u>\$ 238,416</u>

10. **RENTAL INCOME**

IFI leases a portion of its facilities at the 1520 Old Henderson Road headquarters to unrelated businesses at market rental rates. IFI also leased its four-bedroom residential property (the Ministry House) to international students attending universities or to tenants who are involved in IFI's ministry. The tenants may participate in the activities of IFI and thus help IFI achieve its mission. The units are rented below market value, with variable rental rates totaling approximately \$1,400 per month, and lease terms generally coinciding with the school year or for a shorter term.

Rental income for all facilities was \$106,327 and \$76,324 for the periods ending August 31, 2022 and 2021, respectively. A portion of the 2022 rental income amounting to \$22,638 was paid through the \$10,000 insurance proceeds received for the lost rent revenue due to the fire incident. As of August 31, 2022, IFI had a receivable from the insurance company amounting to \$12,638, presented as part of accounts receivable in the Statements of Financial Position.

Due to the short term of leases at the Ministry House and the current unavailability of the IFI headquarters building, expected future rental income is not determinable.

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10. **SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to August 31, 2022 to determine the need for any adjustments to or disclosures within the audited financial statements for the year ended August 31, 2022. Management has performed this analysis through March 28, 2023, the date the financial statements were available to be issued.