

Independent Auditors' Report  
and  
Financial Statements  
of

**GOOD NEIGHBORS USA**

December 31, 2014



## **Independent Auditors' Report**

The Board of Directors  
GOOD NEIGHBORS USA:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of GOOD NEIGHBORS USA, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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 U.S. generally accepted accounting principles; 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 misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 GOOD NEIGHBORS USA as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

*UCMK & Associates*

Los Angeles, California

September 10, 2015

**ASSETS**

Cash	\$	63,722
Prepaid expenses and other current assets		<u>4,034</u>
Total current assets		<u>67,756</u>
Property and equipment, net		11,205
Security deposits		<u>2,900</u>
Total non-current assets		<u>14,105</u>
Total assets	\$	<u><u>81,861</u></u>

**LIABILITIES**

Current portion of long-term debt	\$	4,139
Accrued expenses and other current liabilities		<u>30,595</u>
Total current liabilities		<u>34,734</u>
Long-term debt, net of current portion		<u>694</u>
Total non-current liabilities		<u>694</u>
Total liabilities		<u><u>35,428</u></u>

**NET ASSETS**

Unrestricted net assets		<u>46,433</u>
Total net assets		<u><u>46,433</u></u>
Commitments and contingencies		
Total liabilities and net assets	\$	<u><u>81,861</u></u>

See accompanying notes to financial statements.

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 2,227,730	—	2,227,730
Support from affiliate	497,134	—	497,134
Interest income	12	—	12
Gain from disposition of equipment	2,777	—	2,777
Total support and revenue	<u>2,727,653</u>	<u>—</u>	<u>2,727,653</u>
<b>EXPENSES</b>			
Program services:			
Child sponsorship	132,088	—	132,088
Water for life	257,400	—	257,400
Project cook stoves	23,600	—	23,600
Emergency relief	1,876,964	—	1,876,964
Global citizenship campaign	24,340	—	24,340
Other projects	41,731	—	41,731
Indirect program expenses	608,977	—	608,977
Total program services	<u>2,965,100</u>	<u>—</u>	<u>2,965,100</u>
Supporting services:			
Management and general	156,448	—	156,448
Fundraising	184,051	—	184,051
Total supporting services	<u>340,499</u>	<u>—</u>	<u>340,499</u>
Total expenses	<u>3,305,599</u>	<u>—</u>	<u>3,305,599</u>
Change in net assets	(577,946)	—	(577,946)
Net assets at beginning of year	<u>624,379</u>	<u>—</u>	<u>624,379</u>
Net assets at end of year	<u>\$ 46,433</u>	<u>—</u>	<u>46,433</u>

See accompanying notes to financial statements.

	<u>Supporting services</u>				<u>Total expenses</u>
	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total supporting services</u>	
Child sponsorship	\$ 132,088	—	—	—	132,088
Water for life	257,400	—	—	—	257,400
Project cook stoves	23,600	—	—	—	23,600
Emergency relief	1,876,964	—	—	—	1,876,964
Global citizenship campaign	24,340	1,617	—	1,617	25,957
Other projects	41,731	—	—	—	41,731
Automobile expenses	7,355	2,253	1,980	4,233	11,588
Advertising	18,597	3,087	10,508	13,595	32,192
Administration fees	15,856	514	—	514	16,370
Bank charges	1,416	11,000	—	11,000	12,416
Consulting	30,000	—	3,000	3,000	33,000
Depreciation	4,745	2,887	2,464	5,351	10,096
Dues and subscriptions	781	647	192	839	1,620
Employee benefit	11,734	2,670	2,690	5,360	17,094
Insurance	24,466	10,103	5,987	16,090	40,556
Interest	881	65	—	65	946
Meeting and convention	18,987	2,405	2,257	4,662	23,649
Miscellaneous	1,944	—	491	491	2,435
Office expenses	5,108	8,579	970	9,549	14,657
Postage and shipping	3,626	3,557	697	4,254	7,880
Professional fees	3,385	16,609	30,005	46,614	49,999
Rent	46,808	3,132	8,744	11,876	58,684
Repairs and maintenance	6,443	974	327	1,301	7,744
Salaries and related taxes	357,054	78,019	102,827	180,846	537,900
Special events	7,223	124	3,310	3,434	10,657
Storage	2,049	—	512	512	2,561
Supplies	9,197	5,173	2,207	7,380	16,577
Travel	22,309	990	1,143	2,133	24,442
Utilities	9,013	2,050	1,154	3,204	12,217
Loss from disposition of equipment	—	—	2,579	2,579	2,579
	<u>\$ 2,965,100</u>	<u>156,455</u>	<u>184,044</u>	<u>340,499</u>	<u>3,305,599</u>

See accompanying notes to financial statements.

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (577,946)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	10,096
Net gain from dispositions of equipment	(198)
Changes in prepaid expenses and other current assets	(2,935)
Changes in accrued expenses and other current liabilities	19,061
Net cash used in operating activities	<u>(551,922)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from dispositions of equipment	<u>6,619</u>
Net cash provided by investing activities	<u>6,619</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal payments on long-term debt	<u>(7,285)</u>
Net cash used in financing activities	<u>(7,285)</u>

**NET DECREASE IN CASH** (552,588)

**Cash at beginning of year** 616,310

**Cash at end of year** \$ 63,722

Supplemental disclosure of cash paid for interest	\$ 946
Supplemental disclosure of non-cash transaction:	
– Reduction of long-term debt from dispositions of equipment	8,034

See accompanying notes to financial statements.

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**1. ORGANIZATION AND BUSINESS DESCRIPTION**

GOOD NEIGHBORS USA (the Organization) is an international humanitarian and community development organization incorporated under the laws of the State of California. The Organization is committed to build a global community where people live together in health, harmony, and dignity.

The Organization is an affiliate of GOOD NEIGHBORS INTERNATIONAL (GNI), a global network of humanitarian organization with its affiliates in 30 countries and 195 field offices in five continents. As a significant partner of GNI, the Organization shares information and works together with GNI for child education, community development, health, sanitation, and disaster relief aid projects.

The Organization's fundraising, management, and general expenses are fully supported by GNI, so that the contributions from individual donors are only used for the Organization's direct programs.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1. *Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for not-for-profit organizations.

**2.2. *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates are used primarily in determining depreciation of property and equipment and allocation of functional expenses.

**2.3. *Cash***

The Organization maintains its cash accounts at commercial banks. From time to time, cash balances maintained in one of such banks may exceed \$250,000, the maximum insured amount by the Federal Deposit Insurance Corporation. However, management believes they are not exposed to any significant risk on their cash balances.

**2.4. *Property and Equipment***

Purchased property and equipment are stated at cost, and donated property and equipment are carried at the approximate fair value at the date of donation. Renewals and betterment that extend the economic useful lives of the related assets are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Upon sale or disposition of assets, gain or loss is included in the statement of activities.

Depreciation on property and equipment is provided on the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 7 years. Leasehold improvements are amortized using the straight line method over the shorter of underlying lease term or the asset's estimated useful life.



**2.5. Net Assets**

The Organization presents its financial statements in accordance with the recommendations of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Financial Statements of Not-for-profit Organizations*. Under those provisions, net assets are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions
- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time
- Permanently restricted net assets – Net assets subject to donor-imposed restrictions that maintained permanently by the Organization. Generally the donors of such assets permit the Organization to use all or part of the income earned on the assets.

As of December 31, 2014, the Organization did not have any restriction on its net assets.

**2.6. Contributions**

Contributions are recorded as revenue when received, or when an unconditional promise to give has been made. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donors' intent. Donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

**2.7. Donated Services**

Volunteers participate in the Organization's domestic and international programs. In 2014, 69 volunteers donated their services for approximately 1,275 hours.

Under FASB ASC Subtopic 958-605, *Not-for-Profit Entities - Revenue Recognition*, the donated services must create or enhance nonfinancial assets or require specialized skills to be recognized as revenue. In addition, donated services would typically need to be purchased if not provided by donation in order for them to be recognized as revenue. Accordingly these donated services were not recognized as revenue in the accompanying financial statements.

**2.8. Functional Expenses**

The Organization allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to such program or supporting service.

Certain costs of joint activities related to fundraising, management and general, and various projects have been allocated as indicated among the programs and supporting services benefited. In its statements of activities and functional expenses, the Organization classifies such costs allocated to the programs as indirect program expenses. Other expenses allocated to supporting services are included in management and general expenses or fundraising expenses based on the nature of the related activities.

**2.9. Advertising Expense**

The Organization expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2014 was approximately \$32,000.

**2.10. Income Taxes**

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Donors of cash or property are entitled to the maximum charitable contribution deduction allowed by law.

**2.11. Comprehensive Income**

There was no difference between net income and comprehensive income for the Organization during the reporting period.

**2.12. Fair Value of Financial Instruments**

The Organization's financial instruments are primarily composed of cash, accrued expenses, and long-term debt. The fair values of these financial instruments closely approximate their carrying values due to their short-term maturities and interest rates not materially different from the market rates.

In determining fair values, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels: Level 1, defined as quoted prices in active markets; Level 2, defined as observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3, defined as unobservable inputs about which little or no market data exist, therefore requiring an entity to develop its own assumptions.

**2.13. Commitments and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**3. PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2014 consisted of the following:

Automobile	\$	23,354
Computers		12,635
Office equipment		16,265
Furniture and fixtures		5,314
Total costs of property and equipment		57,568
Accumulated depreciation		(46,363)
Net book value of property and equipment	\$	11,205

Depreciation expenses related to the property and equipment were approximately \$10,000 for the year ended December 31, 2014.

**4. LONG-TERM DEBT**

As of December 31, 2014, the Organization had an automobile loan outstanding for the amount of approximately \$5,000. The loan bears interest at 0.92% and matures in February 2016. Principal and interest of \$347 is paid each month. The scheduled repayments of principal balance amount to approximately \$4,000 and \$1,000 in 2015 and 2016, respectively.

**5. COMMITMENTS AND CONTINGENCIES**

**5.1. Lease**

The Organization leases its office space for its main facility in Los Angeles, California under a non-cancellable operating lease that expires in October 2017. Approximate future minimum lease payments under the non-cancellable lease as of December 31, 2014 are:

Year ending December 31:	
2015	\$ 32,000
2016	33,000
2017	<u>29,000</u>
Total minimum rent payments	<u>\$ 94,000</u>

In addition, the Organization leases another office space in Arlington, Virginia under a one-year operating lease. The lease contract was originally set to expire in July 2015 and, subsequent to the balance sheet date, was renewed to July 2016. Approximate minimum lease payments under this lease are \$30,000 and \$18,000 in 2015 and 2016, respectively.

Total rent expenses recorded under these leases amounted to approximately \$57,000 for the year ended December 31, 2014.

**5.2. Other Contingencies**

The Organization may be involved in various claims and legal actions arising in the ordinary course of activities. In the opinion of management, the Organization is not involved in matters of which the ultimate disposition will have a material adverse effect on the Organization's financial position, results of operations, or liquidity.

**6. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events from the date of the statement of financial position through September 10, 2015, the date at which the financial statements were available to be issued, and determined there have been no other subsequent events that occurred during such period that would require disclosure or would be required to be recognized in the financial statements as of December 31, 2014.