UCMK Certified Public Accountants

Independent Auditors' Report

and

Financial Statements

of

GOOD NEIGHBORS USA

December 31, 2015

UCMK Certified Public Accountants

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, 2015, 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.

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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, 2015, 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

April 15, 2016

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ASSETS		
Cash	$	533,419
Prepaid expenses and other current assets		18,685
Total current assets		552,104
Property and equipment, net		3,307
Security deposits		2,500
Total non-current assets		5,807
Total assets	$	557,911
LIABILITIES		
Accrued expenses and other current liabilities	$	28,625
Total current liabilities		28,625
Total liabilities		28,625
NET ASSETS		
Unrestricted net assets		529,286
Total net assets		529,286
Commitments and contingencies		
Total liabilities and net assets	$	557,911

See accompanying notes to financial statements.

		Unrestricted	Temporarily restricted	Total
SUPPORT AND REVENUE				
Contributions	$	1,971,760	—	1,971,760
Support from affiliate		933,892	—	933,892
Interest income		6	—	6
Gain from disposition of equipment		5,222	—	5,222
Total support and revenue		2,910,880	—	2,910,880
EXPENSES				
Program services:				
Child sponsorship		155,619	—	155,619
Water for life		72,480	—	72,480
Project cook stoves		13,120	—	13,120
Emergency relief		1,114,863	—	1,114,863
Global citizenship campaign		81,607	—	81,607
Hope School		105,700	—	105,700
Other projects		44,602	—	44,602
Indirect program expenses		516,311	—	516,311
Total program services		2,104,302	—	2,104,302
Supporting services:				
Management and general		138,901	—	138,901
Fundraising		184,824	—	184,824
Total supporting services		323,725	—	323,725
Total expenses		2,428,027	—	2,428,027
Change in net assets		482,853	—	482,853
Net assets at beginning of year		46,433	—	46,433
Net assets at end of year	$	529,286	—	529,286

See accompanying notes to financial statements.

	Program services	Supporting services: Management and general	Supporting services: Fundraising	Supporting services: Total supporting services	Total expenses
Child sponsorship	$ 155,619	—	—	—	155,619
Water for life	72,480	—	—	—	72,480
Project cook stoves	13,120	—	—	—	13,120
Emergency relief	1,114,863	—	—	—	1,114,863
Global citizenship campaign	81,607	—	—	—	81,607
Hope School	105,700	—	—	—	105,700
Other projects	44,603	—	—	—	44,603
Automobile expenses	7,082	3,689	3,433	7,122	14,204
Advertising	631	315	2,208	2,523	3,154
Bank charges	—	12,879	—	12,879	12,879
Consulting	21,500	—	—	—	21,500
Depreciation	3,768	1,936	1,416	3,352	7,120
Dues and subscriptions	1,737	1,215	5,584	6,799	8,536
Employee benefit	—	(438)	7,714	7,276	7,276
Insurance	19,685	3,053	4,780	7,833	27,518
Interest	—	26	—	26	26
Meeting and convention	7,257	2,308	2,683	4,991	12,248
Miscellaneous	—	3,510	—	3,510	3,510
Office expenses	4,301	4,284	1,685	5,969	10,270
Postage and shipping	1,918	2,959	4,347	7,306	9,224
Professional fees	23,613	13,700	24,200	37,900	61,513
Rent	52,398	5,565	7,784	13,349	65,747
Repairs and maintenance	4,920	3,585	—	3,585	8,505
Salaries and related taxes	332,733	52,013	76,519	128,532	461,265
Special events	4,703	2,344	15,339	17,683	22,386
Supplies	3,696	11,778	642	12,420	16,116
Travel	20,692	11,286	21,313	32,599	53,291
Utilities	5,676	2,896	5,175	8,071	13,747
	$ 2,104,302	138,903	184,822	323,725	2,428,027

See accompanying notes to financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	482,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		7,120
Net gain from dispositions of equipment		(5,222)
Changes in prepaid expenses and other current assets		(14,651)
Changes in security deposits		400
Changes in accrued expenses and other current liabilities		(1,970)
Net cash provided by operating activities		468,530
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from dispositions of equipment		6,000
Net cash provided by investing activities		6,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt		(4,833)
Net cash used in financing activities		(4,833)
NET INCREASE IN CASH		469,697
Cash at beginning of year		63,722
Cash at end of year	$	533,419

See accompanying notes to financial statements.

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 35 countries and 241 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.

(Continued)

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, 2015, 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 2015, 44 volunteers donated their services for approximately 4,000 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, 2015 was approximately $3,000.

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 and accrued expenses. The fair values of these financial instruments closely approximate their carrying values due to their short-term maturities.

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, 2015 consisted of the following:

Computers	$	12,635
Office equipment		16,265
Funiture and fixtures		5,314
Total costs of property and equipment		34,214
Accumulated depreciation		(30,907)
Net book value of property and equipment	$	3,307

Depreciation expenses related to the property and equipment were approximately $7,000 for the year ended December 31, 2015.

4. COMMITMENTS AND CONTINGENCIES

4.1. 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, 2015 are:

Year ending December 31:		
2016	$	33,000
2017		29,000
Total minimum rent payments	$	62,000

Total rent expenses recorded under the lease amounted to approximately $32,000 for the year ended December 31, 2015.

4.2. 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.

5. SUBSEQUENT EVENTS

The Organization acquired a property in April 2016 to replace the leased facility as its main office space. The acquisition was funded with a mortgage loan secured with an executive's personal guarantee. The loan was for $1,950,000 and incurs interest at fixed interest rate of 4.5%. The loan is to be paid off with 23 equal monthly payments of approximately $11,000 and a balloon payment of approximately $1,873,000 in March 2018.

The Organization has evaluated subsequent events from the date of the statement of financial position through April 15, 2016, 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, 2015.