Independent Auditors' Report

and

Financial Statements

of

GOOD NEIGHBORS USA

December 31, 2018 and 2017

GOOD NEIGHBORS USA

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Independent Auditors' Report

The Board of Directors
GOOD NEIGHBORS USA
Buena Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of GOOD NEIGHBORS USA, which comprise the statements of financial position as of December 31, 2018 and 2017, 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 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 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 from material misstatement.

Our audits included 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. Our audits also included 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

UCMK & ASSOCIATES

Los Angeles, California
June 28, 2019

December 31,		*2018*		*2017*
ASSETS				
Cash	$	714,582	$	3,484,246
Prepaid expenses and other current assets		10,943		90,332
Total current assets		725,525		3,574,578
Property and equipment, net		2,405,691		45,788
Other assets		19,421		13,512
Total non-current assets		2,425,112		59,300
Total assets	$	3,150,637	$	3,633,878
LIABILITIES				
Accrued expenses and other current liabilities	$	33,560	$	97,370
Total current liabilities		33,560		97,370
NET ASSETS				
Unrestricted net assets		3,117,077		3,536,508
Total net assets		3,117,077		3,536,508
Commitment and contingencies				
Total liabiilities and net assets	$	3,150,637	$	3,633,878

See accompanying notes to financial statements

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Gift-in-kind donations	$ 2,775,482	-	$ 2,775,482	$ 16,711,882	-	$ 16,711,882
Contributions	777,931	-	777,931	555,433	-	555,433
Support from affiliate	1,982,738	-	1,982,738	1,618,080	-	1,618,080
Other income	151,823	-	151,823	2,548,975	-	2,548,975
Total support and revenue	5,687,974	-	5,687,974	21,434,370	-	21,434,370
EXPENSES						
Program services:						
Child sponsorship	362,290	-	362,290	201,460	-	201,460
Water for life	8,320	-	8,320	27,065	-	27,065
Project cook stoves	200	-	200	2,859	-	2,859
Emergency relief	1,368,459	-	1,368,459	926,464	-	926,464
Global citizenship campaign	-	-	-	29,749	-	29,749
Medical support	2,782,609	-	2,782,609	16,801,630	-	16,801,630
Other projects	539,956	-	539,956	141,723	-	141,723
Indirect program support	433,471	-	433,471	662,620	-	662,620
Total program services	5,495,305	-	5,495,305	18,793,570	-	18,793,570
Supporting services:						
Management and general	181,893	-	181,893	272,097	-	272,097
Fundraising	341,925	-	341,925	284,887	-	284,887
Rental Property	88,282	-	88,282	-	-	-
Total supporting services	612,100	-	612,100	556,984	-	556,984
Total expenses	6,107,405	-	6,107,405	19,350,554	-	19,350,554
CHANGE IN NET ASSETS	(419,431)	-	(419,431)	2,083,816	-	2,083,816
NET ASSETS AT BEGINNING OF YEAR	3,536,508	-	3,536,508	1,452,692	-	1,452,692
NET ASSETS AT END OF YEAR	$ 3,117,077	-	$ 3,117,077	$ 3,536,508	-	$ 3,536,508

See accompanying notes to financial statements

GOOD NEIGHBORS USA

Statements of Functional Expenses
Years ended December 31, 2018 and 2017

	2018					2017				
	Program Services	Management and General	Fund-raising	Rental Property	Total Expenses	Program Services	Management and General	Fund-raising	Rental Property	Total Expenses
Child sponsorship	$ 362,290	-	-	-	$ 362,290	$ 201,460	-	-	-	$ 201,460
Warter for life	8,320	-	-	-	8,320	27,065	-	-	-	27,065
Project cook stoves	200	-	-	-	200	2,859	-	-	-	2,859
Emergency relief	1,368,459	-	-	-	1,368,459	926,464	-	-	-	926,464
Global citizenship campaign	-	-	-	-	-	29,749	10,038	3,842	-	43,629
Medical support	2,782,609	-	-	-	2,782,609	16,801,631	-	-	-	16,801,631
Other projects	539,956	-	-	-	539,956	141,723	5,000	-	-	146,723
Automobile expenses	489	1,305	651	-	2,445	1,798	4,671	2,616	-	9,085
Advertising	18,435	9,218	64,523	-	92,176	14,239	8,624	48,332	-	71,195
Administration fees	1,106	20,755	-	-	21,861	84	175	-	-	259
Depreciation	624	948	-	13,311	14,883	2,318	21,901	-	-	24,219
Dues and subscriptions	2,497	7,350	2,637	-	12,484	9,398	6,266	4,467	-	20,131
Insurance	32,716	6,543	7,478	1,323	48,060	19,901	4,595	4,542	-	29,038
Interest	-	-	-	-	-	7,171	30,795	4,218	-	42,184
Meeting and convention	1,557	5,564	1,861	-	8,982	1,806	2,694	2,426	-	6,926
Office expenses	727	1,619	78	-	2,424	1,249	2,031	235	-	3,515
Postage and shipping	1,979	7,915	-	-	9,894	1,517	5,987	156	-	7,660
Professional fees	55,600	15,677	9,063	-	80,340	342,354	38,971	41,850	-	423,175
Rent	-	32,432	-	-	32,432	-	23,101	-	-	23,101
Repairs and maintenance	64	257	-	32,758	33,079	2,191	2,380	-	-	4,571
Salaries and related taxes	243,381	34,918	71,778	-	350,077	209,824	48,080	52,306	-	310,210
Special events	60,834	25,436	176,802	-	263,072	29,984	14,369	105,370	-	149,723
Supplies	1,787	7,153	-	-	8,940	3,516	12,945	286	-	16,747
Other taxes	-	10	-	27,422	27,432	1,164	15,461	-	-	16,625
Telephone	739	1,873	1,080	-	3,692	563	1,798	460	-	2,821
Travel	2,637	1,318	3,082	-	7,037	12,064	7,682	13,508	-	33,254
Employee benefits	5,400	900	2,700	-	9,000	-	-	-	-	-
Web maintenance	760	534	-	-	1,294	-	-	-	-	-
Micellaneous	1,299	-	-	-	1,299	-	-	-	-	-
Utilities	840	168	192	13,468	14,668	1,478	4,533	273	-	6,284
Total expenses	$ 5,495,305	181,893	341,925	88,282	$ 6,107,405	$ 18,793,570	272,097	284,887	-	$ 19,350,554

See accompanying notes to financial statements

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (419,431)	$ 2,083,816
Adjustments to reconcile changes in net assets to net cash flow used in operating activities:		
Depreciation	14,882	24,220
Gain on disposition of property	-	(2,509,405)
Changes in prepaid expenses and other current assets	79,389	(81,306)
Changes in other assets	(5,909)	(13,137)
Changes in accrued expenses and other current liabilities	(63,810)	82,056
Changes in other liabilities	-	(6,400)
Net cash used in operating activities	(394,879)	(420,156)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property	-	5,660,132
Purchases of property and equipment	(2,374,785)	(5,591)
Net cash used in investing activities	(2,374,785)	5,654,541
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	-	(1,907,549)
Net increase in cash	(2,769,664)	3,326,836
Cash at beginning of period	3,484,246	157,410
Cash at end of period	$ 714,582	$ 3,484,246
Supplemental disclosure of cash paid for interest	$ -	$ 33,184

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 State of California. The Organization is committed to build a global community where people live together in health, harmony, and dignity.

The Organization establishes and implements policies through the Good Neighbors Global Partnership Center (GPC), a partnered management organization in providing services listed above.

The Organization is in a partnership with Good Neighbors International (GNI), a global humanitarian organization working on various community development projects in 40 countries for child rights. As a partner of GNI, the Organization shares information and works together for child rights advocacy, community development, health, sanitation, and emergency relief.

(2) Summary of Significant Accounting Policies

(a) 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.

(b) 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.

(c) 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.

(d) 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. Renewal 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.

(2) Summary of Significant Accounting Policies (continued)

(d) Property and Equipment (continued)

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.

Long-lived assets, such as property and equipment subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

(e) Net Assets

The Organization presents its financial statements in accordance with the recommendation of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 958, *Financial Statements of Not-for-profit Organization*. 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 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, 2018 and 2017, the Organization did not have any restriction on its net assets.

(2) Summary of Significant Accounting Policies (continued)

(f) Support and Revenue

Gifts-in-kind Donations

Gifts-in-kind (GIK) donations received through private donations are recorded in accordance with U.S. generally accepted accounting principles and industry standards, referred to as the Interagency GIK Standards, as developed by an interagency task force appointed by Accord Network. Accord Network is an industry network which collaborates to eliminate poverty and establish common reporting and operating principles. GIK are valued and recorded as revenue at their estimated fair value based upon the Organization's estimate of the wholesale values that, would be received for selling the goods in their principal exit markets considering the goods condition and utility for use at the time of contribution. The Organization does not sell donated GIK and only distributes the goods for program use.

Pharmaceutical contribution legally permissible for sale in the United States are valued using a hierarchy of pricing inputs that approximates wholesale prices in the United States. Pharmaceutical contributions not legally permissible for sale in the United States are valued based upon wholesale market price data, obtained from reliable third-party sources, representing principal exit markets where such products are approved for sale.

GIK expense is recorded when the goods are distributed for program use.

Contributions

Contributions are recorded as revenue when received, or when the 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.

Support from Affiliate

The Organization's fundraising, management, and general expenses are supported by GNI and GPC, its affiliates. During the year ended December 31, 2018 and 2017, GNI provided the Organization with contributions of approximately $1,353,800 and $1,551,400, respectively, and GPC provided with contributions of approximately $628,900 and $66,700, respectively.

Other Income

In May 2018, the Organization purchased an office building located in Tustin, California, with the plan of using the building as a main office. The Organization plans to move into the building in September 2019 when the current lease expires. Until the Organization moves in, the office spaces in the building are rented out to the tenants. For the year ended December 31, 2018, approximately $118,400 of rental income was recorded in other income.

(2) Summary of Significant Accounting Policies (continued)

(f) Support and Revenue (continued)

Approximately $2,509,000 of total other income for the year ended December 31, 2017 represents a gain from the disposition of the property sold in May 2017.

(g) Donated Services

Volunteers participate in the Organization's domestic and international programs. In 2018, 117 volunteers donated their services for approximately 1,700 hours. In 2017, 43 volunteers donated their services for approximately 7,100 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.

(h) 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 services.

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.

(i) Advertising Expenses

The Organization expenses advertising costs as incurred. Advertising expenses for the year ended December 31, 2018 and 2017 were approximately $92,000 and $71,000, respectively.

(j) 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 and contributions to the Organization qualify for the charitable contribution deduction under Section 170(b)(1)(A).

(2) Summary of Significant Accounting Policies (continued)

(j) Income Taxes (continued)

The Organization is subject to income tax on net income derived from business activities that are unrelated to its exempt purposes. The management has determined that the rental income is subject to unrelated business income tax and has filed business income tax returns with Internal Revenue Service and California Franchise Tax Board for the year ending on December 31, 2018. Income tax amounts for Federal and California for the year ending on December 31, 2018 are approximately $9,000 and $3,600, respectively.

(k) 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 for loans with similar risk factors.

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.

(l) 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.

(m) Recent Accounting Pronouncement

FASB ASU 2016-02, *Leases* – In February 2016, the FASB issued ASU 2016-02, which will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. ASU 2016-02 is effective for the Organization for the year ended December 31, 2020, permits early adoption, and mandates a modified retrospective transition method. The Organization is required to adopt ASU 2016-02 on January 1,

(2) Summary of Significant Accounting Policies (continued)

(m) Recent Accounting Pronouncement (continued)

2020, but is evaluating whether to early adopt. The Organization is evaluating effects that the new standard will have on the financial statements.

FASB ASU 2016-14, Presentation of Financial Statements of Not-*for-Profit Entities* – In August 2016, the FASB issued ASU 2016-14 with the stated purpose of improving financial reporting by not-for-profit entities. Among other provisions, ASU 2016-14 reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is required to adopt ASU 2016-14 on January 1, 2018 and adoption of this ASU does not have a significant impact on the financial statements and related disclosures.

(3) Property and Equipment

Property and equipment as of December 31, 2018 and 2017 consisted of the following:

		2018		***2017***
Computer	$	19,812	$	18,533
Office equipment		16,638		16,638
Furniture and fixtures		34,428		36,178
Leasehold improvement		10,264		10,264
Building		880,113		—
Land		1,500,000		—
Total costs of property and equipment		2,461,255		81,613
Accumulated depreciation		(55,564)		(35,825)
Net book value of property and equipmen	$	2,405,691	$	45,788

Depreciation expenses related to property and equipment were approximately $14,900 and $24,200 for the year ended December 31, 2018 and 2017, respectively.

(4) Commitments and Contingencies

The Organization entered into a noncancelable operating lease agreement for its office space in Buena Park, California in August 2017. This non-cancellable operating lease expires within a year and approximate future minimum lease payment for 2019 under this non-cancellable lease as of December 31, 2018 is $44,100. The Organization subleases a portion of its office space on a month-to-month basis. Rentals paid by a sublessee under the sublease agreement amounted to approximately $32,400 for the year ended December 31, 2018.

The Organization has a month-to-month lease agreement for its shelter space in Compton, California. The base rent is $8,000 per month.

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 matter

(4) Commitments and Contingencies (continued)

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 has evaluated subsequent events from the date of the statement of financial position through June 28, 2019, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.