

SERVING ORPHANS WORLDWIDE, INC.

FINANCIAL REPORT

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Serving Orphans Worldwide, Inc.

We have audited the accompanying financial statements of Serving Orphans Worldwide, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serving Orphans Worldwide, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
August 23, 2017

Your Success is Our Focus

SERVING ORPHANS WORLDWIDE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

	<u>Unrestricted</u> <u>Operating</u> <u>Fund</u>	<u>Temporarily</u> <u>Restricted</u> <u>Orphanage</u> <u>Fund</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents, unrestricted	\$ 37,868	\$ -	\$ 37,868
Receivables	1,550	-	1,550
Inventories	5,951	-	5,951
	<u>45,369</u>	<u>-</u>	<u>45,369</u>
NONCURRENT ASSETS			
Cash and cash equivalents, restricted (Note 3)	-	402,738	402,738
Property and equipment, net (Note 2)	2,529	-	2,529
	<u>2,529</u>	<u>402,738</u>	<u>405,267</u>
Total noncurrent assets	<u>2,529</u>	<u>402,738</u>	<u>405,267</u>
Total assets	<u>\$ 47,898</u>	<u>\$ 402,738</u>	<u>\$ 450,636</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 10,860	\$ -	\$ 10,860
Accrued wages and other expenses	8,000	-	8,000
	<u>18,860</u>	<u>-</u>	<u>18,860</u>
Total current liabilities	<u>18,860</u>	<u>-</u>	<u>18,860</u>
NET ASSETS			
Unrestricted	29,038	-	29,038
Temporarily restricted (Note 3)	-	402,738	402,738
	<u>29,038</u>	<u>402,738</u>	<u>431,776</u>
Total net assets	<u>29,038</u>	<u>402,738</u>	<u>431,776</u>
Total liabilities and net assets	<u>\$ 47,898</u>	<u>\$ 402,738</u>	<u>\$ 450,636</u>

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

SERVING ORPHANS WORLDWIDE, INC.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues			
Contributions	\$ 525,763	\$ 909,064	\$ 1,434,827
In-kind donations	40,084	-	40,084
Interest income	-	163	163
Merchandise sales (net)	1,551	-	1,551
Net assets released from restrictions			
Expiration of purpose restrictions	1,078,985	(1,078,985)	-
	<u>1,646,383</u>	<u>(169,758)</u>	<u>1,476,625</u>
Total revenues			
Expenses			
Program services:			
Orphanage	1,082,307	-	1,082,307
Supporting services:			
Fundraising	205,312	-	205,312
Office and administration	354,641	-	354,641
	<u>1,642,260</u>	<u>-</u>	<u>1,642,260</u>
Total expenses			
Change in net assets	4,123	(169,758)	(165,635)
Net assets, beginning of year	24,915	572,496	597,411
Net assets, end of year	<u>\$ 29,038</u>	<u>\$ 402,738</u>	<u>\$ 431,776</u>

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

SERVING ORPHANS WORLDWIDE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program	Supporting Services		Total
	Services			
	Orphanage	Fundraising	Office and Administration	Expenses
Salaries and related taxes	\$ -	\$ -	\$ 206,931	\$ 206,931
Employee benefits	-	-	10,864	10,864
Total salaries and related expenses	-	-	217,795	217,795
Orphanage	1,082,307	-	-	1,082,307
Website maintenance	-	5,114	-	5,114
Social media networking	-	268	-	268
Video development	-	2,400	-	2,400
Advertising and promotion	-	22,447	-	22,447
Fundraising supplies	-	255	-	255
Golf tournament and raffle	-	172,453	-	172,453
Donor expense and other fundraising events	-	2,375	-	2,375
Insurance	-	-	6,484	6,484
Professional fees	-	-	45,553	45,553
Bank charges	-	-	96	96
Office expenses	-	-	17,472	17,472
Other	-	-	4,782	4,782
Conferences	-	-	930	930
Rent expense	-	-	24,000	24,000
Travel, meals, and entertainment	-	-	32,652	32,652
Other travel	-	-	3,694	3,694
Depreciation	-	-	1,183	1,183
Total expenses	\$ 1,082,307	\$ 205,312	\$ 354,641	\$ 1,642,260

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

SERVING ORPHANS WORLDWIDE, INC.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (165,635)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,183
(Increase) decrease in:	
Receivables	(1,447)
Prepaid insurance	3,050
Inventories	150,249
Increase (decrease) in:	
Accounts payable	(4,140)
Credit card payable	(448)
Accrued wages and other expenses	<u>8,000</u>
Net cash used in operating activities	<u>(9,188)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(2,091)</u>
Net cash used in investing activities	<u>(2,091)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(11,279)
CASH AND CASH EQUIVALENTS, beginning	<u>451,885</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 440,606</u>
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION	
Cash and cash equivalents, unrestricted	\$ 37,868
Cash and cash equivalents, restricted	<u>402,738</u>
	<u>\$ 440,606</u>

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

SERVING ORPHANS WORLDWIDE, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 1. Summary of Significant Accounting Policies

Nature of Activities

Serving Orphans Worldwide, Inc. is a Christian charity that provides monitored safe havens – orphanages, feeding centers, and learning facilities – for orphans who have no place to go due to devastating natural disasters, civil wars, or disintegrating societies and homes. The Board of Directors has agreed to pay all administrative costs associated with the operations of the Organization, consequently, all monies raised through donations and our network of fundraising teams go directly toward funding operating expenses for orphanages and feeding centers located on five continents.

Basis of Accounting and Presentation

The accompanying financial statements are presented on the accrual basis of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's Accounting Standard Codification 958, *Not-for-Profit Entities*. Under FASB ASC 958, Serving Orphans Worldwide, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Serving Orphans Worldwide, Inc. reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Income Tax Status

Serving Orphans Worldwide, Inc. is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code.

FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting and recognition for income tax positions taken or expected to be taken in Serving Orphans Worldwide, Inc. income tax returns. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2013-2016.

Cash and Cash Equivalents

Serving Orphans Worldwide, Inc. considers all highly liquid investments with original maturities of three months or less at date of purchase, and which are not subject to withdrawal restrictions or penalties from financial institutions, to be cash equivalents.

(Continued)

SERVING ORPHANS WORLDWIDE, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (continued)

Serving Orphans Worldwide, Inc. maintains cash balances in a local financial institution, which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, balances in this financial institution may exceed the FDIC limits; however, Serving Orphans Worldwide, Inc. has not experienced any losses on these accounts and feels it is not subject to any credit risk on cash and cash equivalents maintained at this financial institution. As of December 31, 2016, the Organization had cash and cash equivalents in excess of FDIC limits of approximately \$189,843.

Inventories

Unrestricted inventories of resale items were donated and are recorded at donor cost.

Property and Equipment

Property and equipment with an estimated useful life of greater than one year are capitalized at cost. Maintenance and repair items are charged to expense when incurred, while major renewals and improvements are capitalized. Depreciation is computed on an accelerated basis over the estimated service lives of the assets. Estimated useful lives are as follows:

Equipment	5 years
Website	5 years

Allocation of Expenses

Serving Orphans Worldwide, Inc. expenses are presented on a functional basis, showing basic program activities and support services. The Organization allocates expenses between support, program services, and fundraising based upon specific identification or a defined allocation method.

Classes of Net Assets

The financial statements report amounts separately by classes of net asset as follows:

Unrestricted net assets are those currently available at the discretion of the Board of Directors for use in Serving Orphans Worldwide, Inc. operations.

Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions, or those not currently available for use until commitments regarding their use have been fulfilled.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from the estimates that were used.

SERVING ORPHANS WORLDWIDE, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

In-kind donations

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and various committee assignments. Although these services are necessary to the programs, they are not provided by volunteers with specialized skills. In addition, they would not be purchased if they were not donated and are not recognized in the financial statements in accordance with authoritative guidance. The Organization, however, does recognize the value of rental space provided and miscellaneous donated items for fundraising events. The donated use of the office space utilized by the Organization is recognized at fair rental value.

Note 2. Property, Plant and Equipment

Property, plant, and equipment consist of the following at December 31, 2016:

Office equipment and website	\$ 44,343
Less accumulated depreciation	<u>(41,814)</u>
Net property, plant and equipment	<u>\$ 2,529</u>

Depreciation expense for the period was \$1,183.

Note 3. Restricted Net Assets

Temporarily restricted net assets and restricted cash are available for the following purpose:

Support of orphanages	\$ 402,738
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Note 4. Concentration of Donors

There is a high concentration of total contributions received from a few donors. In 2016, the top three donors contributed 38% of the total contributions received by the Organization.

Note 5. Subsequent Events

Management evaluated all activity of the Organization through August 23, 2017 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.