



**SERVING ORPHANS WORLDWIDE, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2017**

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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, 2017, 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, 2017, 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  
July 13, 2018

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*Your Success is Our Focus*

**SERVING ORPHANS WORLDWIDE, INC.**

**STATEMENT OF FINANCIAL POSITION**

**December 31, 2017**

	<b>Unrestricted</b>	<b>Temporarily</b>	
	<b>Operating</b>	<b>Restricted</b>	
	<b>Fund</b>	<b>Orphanage</b>	<b>Totals</b>
	<b>Fund</b>	<b>Fund</b>	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents, unrestricted	\$ 13,973	\$ -	\$ 13,973
Receivables (Note 2)	17,475	-	17,475
Prepaid insurance	1,748	-	1,748
Inventories	5,019	-	5,019
	<u>38,215</u>	<u>-</u>	<u>38,215</u>
<b>Total current assets</b>			
<b>NONCURRENT ASSETS</b>			
Cash and cash equivalents, restricted (Note 4)	-	455,601	455,601
Property and equipment, net (Note 3)	1,004	-	1,004
	<u>1,004</u>	<u>455,601</u>	<u>456,605</u>
<b>Total noncurrent assets</b>			
<b>Total assets</b>	<u>\$ 39,219</u>	<u>\$ 455,601</u>	<u>\$ 494,820</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 10	\$ -	\$ 10
Accrued wages and other expenses	7,857	-	7,857
	<u>7,867</u>	<u>-</u>	<u>7,867</u>
<b>Total current liabilities</b>			
<b>NET ASSETS</b>			
Unrestricted	31,352	-	31,352
Temporarily restricted (Note 4)	-	455,601	455,601
	<u>31,352</u>	<u>455,601</u>	<u>486,953</u>
<b>Total net assets</b>			
<b>Total liabilities and net assets</b>	<u>\$ 39,219</u>	<u>\$ 455,601</u>	<u>\$ 494,820</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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Contributions	\$ 454,920	\$ 1,250,709	\$ 1,705,629
In-kind donations	84,000	-	84,000
Interest income	-	126	126
Merchandise sales (net)	9,744	-	9,744
Net assets released from restrictions			
Expiration of purpose restrictions	<u>1,197,972</u>	<u>(1,197,972)</u>	<u>-</u>
Total revenues	<u>1,746,636</u>	<u>52,863</u>	<u>1,799,499</u>
Expenses			
Program services:			
Orphanage	<u>1,313,897</u>	<u>-</u>	<u>1,313,897</u>
Supporting services:			
Fundraising	80,904	-	80,904
Office and administration	<u>349,521</u>	<u>-</u>	<u>349,521</u>
Total expenses	<u>1,744,322</u>	<u>-</u>	<u>1,744,322</u>
Change in net assets	2,314	52,863	55,177
Net assets, beginning of year	<u>29,038</u>	<u>402,738</u>	<u>431,776</u>
Net assets, end of year	<u>\$ 31,352</u>	<u>\$ 455,601</u>	<u>\$ 486,953</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, 2017**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Orphanage</u>	<u>Fundraising</u>	<u>Office and Administration</u>	
Salaries and related taxes	\$ -	\$ -	\$ 163,522	\$ 163,522
Employee benefits	-	-	12,309	12,309
 Total salaries and related expenses	 -	 -	 175,831	 175,831
 Orphanage	 1,313,897	 -	 -	 1,313,897
Website maintenance	-	15,939	-	15,939
Social media networking	-	102	-	102
Video development	-	16,157	-	16,157
Advertising and promotion	-	17,352	-	17,352
Fundraising supplies	-	997	-	997
Golf tournament and raffle	-	333	-	333
Donor expense and other fundraising events	-	30,024	-	30,024
Insurance	-	-	6,413	6,413
Professional fees	-	-	34,494	34,494
Bank charges	-	-	135	135
Office expenses	-	-	12,256	12,256
Other	-	-	2,699	2,699
Merchandise	-	-	4,267	4,267
Use of donated employees	-	-	60,000	60,000
Rent expense	-	-	24,000	24,000
Travel, meals, and entertainment	-	-	27,869	27,869
Other travel	-	-	31	31
Loss on disposal of fixed assets	-	-	571	571
Depreciation	-	-	955	955
 Total expenses	 <u>\$ 1,313,897</u>	 <u>\$ 80,904</u>	 <u>\$ 349,521</u>	 <u>\$ 1,744,322</u>

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, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 55,177
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	955
Loss on disposal of fixed assets	571
(Increase) decrease in:	
Receivables	(15,925)
Prepaid insurance	(1,748)
Inventories	932
Increase (decrease) in:	
Accounts payable	(10,850)
Accrued wages and other expenses	<u>(144)</u>
Net cash provided by operating activities	<u>28,968</u>
INCREASE IN CASH AND CASH EQUIVALENTS	28,968
CASH AND CASH EQUIVALENTS, beginning	<u>440,606</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 469,574</u></u>
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION	
Cash and cash equivalents, unrestricted	\$ 13,973
Cash and cash equivalents, restricted	<u>455,601</u>
	<u><u>\$ 469,574</u></u>

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

**SERVING ORPHANS WORLDWIDE, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2017**

**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 2014-2017.

*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, 2017

**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, 2017, the Organization had cash and cash equivalents in excess of FDIC limits of approximately \$219,240.

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.

(Continued)

**SERVING ORPHANS WORLDWIDE, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2017**

**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, most 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 the donated services of one employee, rental space provided and miscellaneous donated items for fundraising events. The value of services donated by an employee is estimated by management for the duties performed for the Organization. The donated use of the office space utilized by the Organization is recognized at fair rental value.

**Note 2. Accounts Receivable**

Accounts receivable consists of the following:

Contributions	\$ 16,475
Other miscellaneous receivables	<u>1,000</u>
Total accounts receivable	<u>\$ 17,475</u>

The contributions noted above are payroll deductions from a Company that had been deducted in 2017 but were not remitted until 2018. This Company is a related party to one of the Board members of the Organization.

**Note 3. Property, Plant and Equipment**

Property, plant, and equipment consist of the following at December 31, 2017:

Office equipment and website	\$ 33,085
Less accumulated depreciation	<u>(32,081)</u>
Net property, plant and equipment	<u>\$ 1,004</u>

Depreciation expense for the period was \$955.

**Note 4. Restricted Net Assets**

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

Support of orphanages	\$ 455,601
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**SERVING ORPHANS WORLDWIDE, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2017**

**Note 5. Concentration of Donors**

There is a high concentration of total contributions received from a few donors. In 2017, the top three donors contributed 46% of the total contributions received by the Organization.

**Note 6. Future Accounting Standards**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, Revenue Recognition, and most industry-specific accounting guidance. Additionally, ASU 2014-09 supersedes some guidance included in ASC 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of ASC 360, Property, Plant, and Equipment, and intangible assets within the scope of ASC 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”) which defers the effective date of the new revenue recognition standard by one year. Accordingly, ASU 2014-09 will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods therein. The FASB has also issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, all of which clarify certain implementation guidance within ASU 2014-09. The Organization is evaluating the potential impact of the adoption of this guidance, but does not anticipate that the adoption will significantly change the timing or amount of revenue recognized. Therefore, the Organization believes the adoption will be limited to expanded disclosures in its financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which effects all nonprofit organizations. The ASU significantly amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.

**Note 7. Subsequent Events**

Management evaluated all activity of the Organization through July 13, 2018 (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.