

AGAPE INTERNATIONAL MISSIONS
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
THEREON
DECEMBER 31, 2018

**AGAPE INTERNATIONAL MISSIONS
FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Agape International Missions
Roseville, California

We have audited the accompanying financial statements of Agape International Missions, a 501(c)(3) nonprofit organization, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, statement of 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 of 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 of material misstatement.

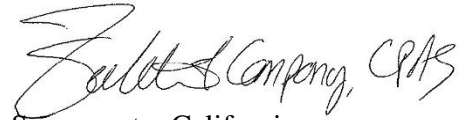
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these 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 principles 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.

To the Board of Directors
Agape International Missions

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Agape International Missions as of December 31, 2018, and the changes in its net assets, functional expenses and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Fechter & Company,
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in black ink and is positioned above the printed name of the firm.

Sacramento, California
April 26, 2019

**AGAPE INTERNATIONAL MISSIONS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

CURRENT:

Cash in United States bank	\$	649,729
Cash in Cambodian bank		190,092
Total cash		839,821
Program cost advances		54,834
Donations receivable		17,170
Employee advances		9,942
Employee note receivables, current		6,513
Prepaid expenses		74,000
Related party receivable (see note 7)		27,130
Total current assets		1,029,410
Property and equipment, net		3,999,497
Employee note receivable, net of current		1,634
Prepaid expenses, net of current		70,000
Total Assets	\$	5,100,541

LIABILITIES AND NET ASSETS

CURRENT

Accounts payable and accrued expenses	\$	111,876
Total current liabilities		111,876

NET ASSETS

Temporarily restricted		145,107
Unrestricted		4,843,558
		4,988,665

Total Liabilities and Net Assets	\$	5,100,541
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The accompanying notes are an integral part of these financial statements.

AGAPE INTERNATIONAL MISSIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Contributions	\$ 3,871,291	\$ 1,687,560	\$ 5,558,851
Donated Services and Goods	1,248,107		1,248,107
Total Donations	<u>5,119,398</u>	<u>1,687,560</u>	<u>6,806,958</u>
Product sales	744,853	-	744,853
Less cost of goods sold	<u>(535,448)</u>	<u>-</u>	<u>(535,448)</u>
Gross Profit	209,405	-	209,405
Net assets released of restrictions:			
Satisfaction of program restrictions	760,960	(760,960)	-
Satisfaction of equipment purchase restrictions	<u>1,756,618</u>	<u>(1,756,618)</u>	<u>-</u>
Total net assets released of restrictions	<u>2,517,578</u>	<u>(2,517,578)</u>	<u>-</u>
Total Revenue	7,846,381	(830,018)	7,016,363
Expenses:			
Program services	<u>5,208,902</u>	<u>-</u>	<u>5,208,902</u>
Supporting services:			
Management and general	232,856	-	232,856
Fund development	<u>446,674</u>	<u>-</u>	<u>446,674</u>
Total supporting expenses	679,530	-	679,530
Total Expenses	<u>5,888,432</u>	<u>-</u>	<u>5,888,432</u>
Change in Net Assets	1,957,949	(830,018)	1,127,931
Net Assets - beginning of year	<u>2,851,859</u>	<u>975,125</u>	<u>3,826,984</u>
Prior period adjustment	<u>33,750</u>	<u>-</u>	<u>33,750</u>
Net Assets - end of year	<u>\$ 4,843,558</u>	<u>\$ 145,107</u>	<u>\$ 4,988,665</u>

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

AGAPE INTERNATIONAL MISSIONS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED
DECEMBER 31, 2018

	<u>Supporting Activities</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Development</u>	
Personnel	\$ 2,207,884	\$ 170,475	\$ 281,233	\$ 2,659,592
Personnel - donated	1,151,405	-	62,899	1,214,304
Advertising	2,938	651	1,070	4,659
Bank charges	43,579	11,927	19,604	75,110
Cambodia taxes and fees	52,290	-	-	52,290
Conference and meetings	5,751	550	905	7,206
Counseling	2,590	-	-	2,590
Depreciation	108,681	871	1,431	110,983
Education supplies and tuition	62,084	-	-	62,084
Events and fundraising	20,098	7,246	11,911	39,255
Facility utilities	60,822	560	920	62,302
Food	286,126	-	-	286,126
Humanitarian aid and outreach	354,061	1,384	2,276	357,721
Information and technology	34,088	5,105	8,392	47,585
Insurance	5,174	1,397	2,297	8,868
Ministry supplies and books	54,239	299	491	55,029
Occupancy	196,576	7,420	12,197	216,193
Office expenses	42,577	1,266	2,083	45,926
Other program costs	18,915	-	-	18,915
Postage and shipping	6,907	1,505	2,474	10,886
Printing and publications	2,790	1,006	1,654	5,450
Professional fees	122,570	6,727	11,058	140,355
Repairs and maintenance	38,693	-	-	38,693
Residence expenses	72,723	-	-	72,723
Telephone	9,975	880	1,446	12,301
Travel	75,587	13,587	22,333	111,507
Vehicle operations	85,295	-	-	85,295
Vocational training and reintegration	84,484	-	-	84,484
Total Expenses	\$ 5,208,902	\$ 232,856	\$ 446,674	\$ 5,888,432

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

**AGAPE INTERNATIONAL MISSIONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 1,127,931
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Prior period adjustment	33,750
Depreciation	110,983
Increase in program cost advances	(3,463)
Increase in donations receivable	(17,170)
Decrease in notes employee receivable	14,304
Decrease in prepaid expenses	20,963
Increase in related party receivable	(27,130)
Decrease in accounts payable and accruals	<u>4,428</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>1,264,596</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	<u>(2,176,792)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,176,792)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(912,196)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,752,017</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 839,821</u></u>

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

**AGAPE INTERNATIONAL MISSIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1. ORGANIZATION

Agape International Missions (AIM) is a non-profit organization founded on the ground in Cambodia in 1988 as a humanitarian aid and church planting organization. Since 2005, AIM has fought sex trafficking. AIM's programs prevent sex trafficking and work to rescue, restore and reintegrate survivors of this crime.

Prevention programs include an elementary and English school, humanitarian aid, emergency family care, church planting and education regarding the protection and value of children. Rescue efforts are performed through AIM's unique permission granted by the Cambodian government allowing AIM to conduct investigations, perform raids, make arrests, and rescue victims of sex trafficking alongside government officials within the country of Cambodia. Through AIM's Restoration program, victims of sex trafficking receive love, hope, healing, and tools for a brand-new life that will last a lifetime. Reintegration programs include providing and training survivors with marketable skills that will enable them to work in healthy jobs, and in some cases, providing them with employment opportunities.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The accounting records are maintained and the financial statements of AIM are prepared on the accrual basis of accounting (US GAAP). Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, AIM classifies their net assets and changes in net assets as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions or the donor imposed restrictions have expired.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that may or will be met either by actions of AIM and/or the passage of time. There are net assets with donor restrictions of \$145,107 at December 31, 2018.

Implementation of Pronouncements - In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which requires changes to financial reporting by not-for-profit entities (NFO). This change reduces the number of classes of net assets to be net assets with donor restrictions or net assets without donor restrictions. This pronouncement is effective for fiscal years beginning after December 15, 2017. AIM's initial year of implementation is the year ended December 31, 2018.

Functional Expenses – The costs of providing various programs and activities have been summarized on a functional basis in the statement of revenues, expenses, and other changes in net assets and statement of functional expenses. Certain costs have been allocated among programs and supporting services, based on personnel and usage.

AGAPE INTERNATIONAL MISSIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk – AIM maintains cash balances with high credit quality financial institutions, in the United States of America and Cambodia. Accounts in the United States are insured by the Federal Deposit Insurance Corporation for amounts up to \$250,000.

Property and Equipment – Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 2 to 39 years. AIM follows the policy of capitalizing, at cost, all expenditures for property and equipment greater than \$200.

Foreign Currency Transactions – Foreign currency transactions are recorded in United States dollars at the exchange rates in effect at the date of the transactions.

Additionally, AIM receives some skilled, contributed time that does not meet the two recognition criteria described below. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Prior Period Adjustment – A prior period adjustment was reflected in the financial statements to properly reflect prepaid rent.

Program Costs Advanced – Costs advanced are funds that have been transferred from the Foreign Trade Bank of Cambodia to the individual ministry programs involved. They represent excess budgeted amounts received by the programs designated for use in the near future.

Valuation of Long-Lived Assets: AIM reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by the comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Cash and Cash Equivalents - For the purpose of the Statement of Cash Flows, AIM considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of three months or less at the time of purchase.

AGAPE INTERNATIONAL MISSIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services and Goods — AIM receives specialized services from volunteers who contribute time to the activities of AIM. Donated services are recorded for individuals that provide AIM with specialized skills that AIM would need to hire for these positions if not provided by donation. The salaries of these are estimated based on the current market rates of individuals with these specialized skills that would be available to fill the positions in Cambodia. Because many of these positions are not available in Cambodia's market, the estimate uses the current rate of expatriate missionaries as this would be the market where AIM would recruit to fill these positions.

Certain operating facilities are provided in the United States and Cambodia by donors at no cost to AIM. Fair market value rent of \$12,540 in 2018 has been accounted for as contributions and occupancy expense. Noncash donations for supplies including household items, prizes, food, and beverages have been recorded as in-kind donations and are recorded at fair market value at the date of donation. During the year ended December 31, 2018, AIM received \$1,214,304 of services, \$12,540 of facility rent, \$14,991 of equipment and \$6,272 for other operating expenses.

Donations and Grant Income — AIM receives donations and grants from corporations, foundations, charitable organizations, and individuals. Due to the large amount of donations at year end, AIM records receipts as of December based on the December postmark on donors' envelopes since it represents an unconditional promise to give at year-end. Donor-restricted support is reported as an increase in net assets with donor restrictions if the restriction is not met by the end of the year. When the restriction expires (that is when the time restriction ends or the purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cost of goods sold include direct costs associated with producing the products as well as related shipping costs.

Fundraising Events: AIM complies with the Not-for-Profit Topic of the Codification, which requires that revenue and expenses from fundraising events be reported gross; therefore, fund development expenses are not offset directly against related revenues. Contribution revenue from events totaled \$190,927 and fundraising event expenses were \$14,404 for the year ended December 31, 2018.

Advertising - The cost of advertising is charged to expense as incurred.

**AGAPE INTERNATIONAL MISSIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements: In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. AIM is currently evaluating the extend of the anticipated impact of this standard and will implement this standard on January 1, 2020.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most exiting revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. This ASU became effective January 1, 2019. AIM is currently evaluating the potential impact of adopting this standard and does not expect it to have a material impact on the consolidated financial statements.

NOTE 3. NOTE RECEIVABLE

At December 31, 2018, the note receivable, due from an employee, in the amount of \$8,147 consists of a secured note with interest and principal payments of \$501 per month, including interest at 1.5%. Under terms of agreement, ownership of the property would revert to AIM on default.

NOTE 4. PROPERTY AND EQUIPMENT

Property, equipment, and depreciation consist of the following at December 31, 2018:

	Cost	Accumulated Depreciation	Net
Land	\$ 684,150	\$ -	\$ 684,150
Building	656,812	82,360	574,452
Construction in Progress	2,550,966	-	2,550,966
Furniture and Equipment	379,491	275,945	103,546
Vehicles	184,564	98,181	86,383
Total	<u>\$ 4,455,983</u>	<u>\$ 456,486</u>	<u>\$ 3,999,497</u>

**AGAPE INTERNATIONAL MISSIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4. PROPERTY AND EQUIPMENT (continued)

Construction in progress primarily includes a new school being built in Cambodia that is expected to be completed in early 2019. Depreciation expense for the year ended December 31, 2018, was \$110,983.

NOTE 5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31, 2018:

New school operating funds	\$ 126,151
Roof additions	15,000
Aid victims fund	<u>3,956</u>
Total	<u>\$ 145,107</u>

NOTE 6. OPERATING LEASE OBLIGATIONS

To fulfill its purpose, AIM occupies various facilities as follows:

- Roseville, California – Office space leased monthly at \$3,335 per month through September of 2021.
- Cambodia – Various operating facilities leased ranging from \$150 per month to \$3,000 per month. Lease terms also vary from month to month to terms that go through 2021.

At December 31, 2018, future minimum lease payments under these arrangements were as follows:

2019	\$ 104,974
2020	86,433
2021	<u>40,579</u>
Total	<u>\$ 231,986</u>

NOTE 7. RELATED PARTY TRANSACTIONS AND CONTINGENCIES

During 2018, two of AIM’s directors were owners in a California Limited Liability Company (LLC). AIM sold products to the LLC at standard wholesale pricing during the year ended December 31, 2018, for a total of \$56,579. There was a receivable from the LLC of \$27,130 as of December 31, 2018.

**AGAPE INTERNATIONAL MISSIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7. RELATED PARTY TRANSACTIONS AND CONTINGENCIES – (continued)

In an effort to grow the Reintegration Pillar by increasing sales of AIM products and therefore increase employment in AIMs manufacturing facilities, AIM and the LLC have agreed in principal for AIM to acquire the assets of the LLC for \$180,000. A sales contract is being negotiated and will require approval by AIM’s Board of Directors. The deal is expected to be concluded in the second half of 2019.

NOTE 8. TAX-EXEMPT STATUS

AIM has been granted tax-exempt status from the Internal Revenue Service and the State of California under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. AIM would be subject to income taxes from activities unrelated to its tax-exempt purposes, but has not engaged in any such activities.

AIM complies with the accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management has concluded that AIM has taken no uncertain tax positions that require adjustment to the financial statements.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 26, 2019, which is the date the financial statements were available to be issued.