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Report of Independent Auditors on the Financial Statements of

**ORPHANAGE OUTREACH, INC.
DBA OUTREACH360**

December 31, 2015



ORPHANAGE OUTREACH, INC. DBA OUTREACH360
REPORT OF INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Orphanage Outreach, Inc. dba Outreach360

We have audited the accompanying financial statement of Orphanage Outreach, Inc. dba Outreach360 (a nonprofit corporation), which comprises the statement of financial position as of December 31, 2015, and the related statements of activities, functional expense, 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.

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 of 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 Orphanage Outreach, Inc. dba Outreach360 as of December 31, 2015, 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.

A handwritten signature in black ink that reads "Metz & Associates PLLC".

Phoenix, Arizona
July 25, 2016

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
STATEMENT OF FINANCIAL POSITION
As of December 31, 2015

ASSETS

CURRENT ASSETS:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 155,559 |
| Prepaid expenses | <u>2,400</u> |

TOTAL CURRENT ASSETS 157,959

FIXED ASSETS

| | |
|--------------------------------|------------------|
| Less: Accumulated depreciation | 983,926 |
| | <u>(234,210)</u> |

NET FIXED ASSETS 749,716

TOTAL ASSETS \$ 907,675

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

| | |
|---------------------------------------|---------------|
| Accounts payable and accrued expenses | \$ 11,409 |
| Current portion of note payable | <u>20,000</u> |

TOTAL CURRENT LIABILITIES 31,409

NOTE PAYABLE, NET OF CURRENT 100,000

TOTAL LIABILITIES 131,409

NET ASSETS

| | |
|-------------------------|----------------|
| Unrestricted net assets | <u>776,266</u> |
|-------------------------|----------------|

TOTAL LIABILITIES AND NET ASSETS \$ 907,675

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

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

CHANGES IN UNRESTRICTED NET ASSETS:

| | |
|--|-------------------|
| Revenue and support: | |
| Volunteer income | \$ 1,280,395 |
| In-Kind donations | 79,245 |
| Scholarship gifts | 70,378 |
| Donations | 60,910 |
| Store income | 3,239 |
| Other income | 1,331 |
| (Loss) on currency exchange | <u>(295)</u> |
| TOTAL UNRESTRICTED REVENUE AND SUPPORT | 1,495,203 |
| Expenses: | |
| Program services | 1,032,383 |
| Management and general | 148,736 |
| Fundraising | <u>44,966</u> |
| TOTAL EXPENSES | <u>1,226,085</u> |
| CHANGE IN NET ASSETS | 269,118 |
| Net Assets, Beginning of Year | <u>507,148</u> |
| Net Assets, End of Year | \$ <u>776,266</u> |

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

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015

| | Program Services | Management and General | Fundraising | Total |
|---------------------------|---------------------|---------------------------|------------------|---------------------|
| Salaries and wages | \$ 252,791 | \$ 66,365 | \$ 29,366 | \$ 348,522 |
| Payroll tax | 20,150 | 5,316 | 2,312 | 27,778 |
| Employee benefits | 24,941 | 712 | 3,563 | 29,216 |
| Total personnel | 297,882 | 72,393 | 35,241 | 405,516 |
| Direct assistance | 545,734 | 0 | 0 | 545,734 |
| Professional fees | 33,027 | 8,050 | 0 | 41,077 |
| Advertising and marketing | 21,594 | 1,450 | 9,725 | 32,769 |
| Office expenses | 14,560 | 17,657 | 0 | 32,217 |
| Information technology | 12,884 | 6,865 | 0 | 19,749 |
| Travel | 20,849 | 801 | 0 | 21,650 |
| Interest | 0 | 14 | 0 | 14 |
| Depreciation | 19,308 | 0 | 0 | 19,308 |
| Insurance | 26,976 | 27,943 | 0 | 54,919 |
| Bank and Paypal fees | 30,405 | 0 | 0 | 30,405 |
| Storage rent | 0 | 12,000 | 0 | 12,000 |
| Training | 9,164 | 0 | 0 | 9,164 |
| Miscellaneous | 0 | 1,563 | 0 | 1,563 |
| Total expenses | \$ <u>1,032,383</u> | \$ <u>148,736</u> | \$ <u>44,966</u> | \$ <u>1,226,085</u> |

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

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

| | |
|--|--------------------------|
| Reconciliation of Change in Net Assets to | |
| Net Cash Provided by Operating Activities: | |
| Change in net assets | \$ 269,118 |
| Depreciation | 19,308 |
| Decrease (increase) in: | |
| Prepaid expenses | 7,954 |
| Accounts payable and accrued expenses | <u>(9,061)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 287,319 |
| Cash Flows from Financing Activities: | |
| Payments on loans from officers | (197,345) |
| Payments on short term debt | (3,000) |
| Payments on long term debt | <u>(20,000)</u> |
| NET CASH USED BY FINANCING ACTIVITIES | <u>(220,345)</u> |
| Increase in Cash and Cash Equivalents | 66,974 |
| Cash and Cash Equivalents, Beginning of Year | <u>88,585</u> |
| Cash and Cash Equivalents, End of Year | \$ <u><u>155,559</u></u> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

| | |
|--|---------------------|
| Cash paid for interest during the year ended December 31, 2015 | \$ <u><u>14</u></u> |
|--|---------------------|

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

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2015

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Orphanage Outreach, Inc. dba Outreach360 (the Organization), an Arizona nonprofit public benefit organization, was founded in 1995 to transform individuals, families, communities, countries, and the world through the education and development of disadvantaged children in Nicaragua and the Dominican Republic.

Basis of Accounting – The accounts of the Organization are maintained, and the financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation – In accordance with accounting principles generally accepted in the United States of America (GAAP), the Organization reports 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. As of December 31, 2015, there were no temporarily or permanently restricted net assets.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. Actual results may differ from those estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk – Financial instruments which potentially subject the Organization to concentrations of credit risk include cash deposits and investments maintained in excess of Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2015, the Organization did not have any balances on deposit in excess of federally insured limits.

Foreign Currency Risk – Operations outside the United States are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange.

Fixed Assets – Land, buildings and equipment are recorded at cost; donated assets are capitalized at fair value at the date of receipt. Repairs, maintenance, and minor replacements are expensed as incurred. For financial reporting purposes, depreciation is computed using the straight line method over the estimated useful lives of the assets, which range from five to thirty-nine years. The Organization capitalizes its property and equipment in excess of \$5,000.

Impairment of Long-Lived Assets – The Organization 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 assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. 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 fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Compensated absences – The Organization allows full-time employees to receive compensation for vacation and sick leave. Compensated absences for vacation and sick pay have not been accrued since they cannot be carried forward from year to year, but are expensed as incurred.

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2015

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Assets and Services – Donated non-cash assets are recorded as contributions at their estimated fair values at the date of donation. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Support and Revenue – Contributions are recognized as support when received or unconditionally promised. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor-imposed restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 restriction.

Functional Allocation of Expenses – Expenses are charged to programs and supporting services on the basis of periodic time and expense studies as well as estimates made by the Organization's management. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising Cost – The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expense was \$32,769 for the year ended December 31, 2015.

Foreign Currency – Results of operations for the Organization's foreign operations are translated from the local (functional) currency to the U.S. dollar using average exchange rates during the period, while assets and liabilities are translated at the exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are included in earnings. As a result, the transactions of those operations that are denominated in foreign currencies are re-measured into U.S. dollars, and any resulting gains or losses are included in earnings. The Organization experienced a net foreign currency transaction loss of \$295 during the year ended December 31, 2015.

Excise Tax – The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code (IRC) and is classified as a public charity as described in section 509(a)(1) and 170(b)(1)(A)(vi) of the IRC. The Organization is not subject to the two percent (one percent if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined by the IRC.

NOTE B – FAIR VALUE ESTIMATES

GAAP provide a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Assets and liabilities that are required to be recorded at fair value in the balance sheet are categorized based on the inputs to valuation techniques as follows:

Level 1. These assets and liabilities are where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2015

NOTE B – FAIR VALUE ESTIMATES (continued)

Level 2. These are assets and liabilities where values are based on the following inputs:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs which are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As of December 31, 2015, the Organization had no assets or liabilities that were required to be valued using the fair value hierarchy. The carrying amounts reflected in the balance sheet for cash and cash equivalents, and accounts payable and accrued expenses approximate the respective fair values due to the short maturities of those instruments.

NOTE C – FIXED ASSETS

Land, buildings and equipment consisted of the following at December 31, 2015:

| | <u>2015</u> | <u>Estimated Useful Lives</u> |
|----------------------------|-------------------|-------------------------------|
| Land | \$ 275,000 | Permanent |
| Buildings and improvements | 570,000 | 39 years |
| Vehicles | <u>138,926</u> | 5 years |
| | <u>\$ 983,926</u> | |

Depreciation charged to income was \$19,308 for the year ended December 31, 2015.

NOTE D – NOTE PAYABLE

In 2007, the Organization purchased property in the Dominican Republic for \$300,000, with a \$20,000 down payment and signing a non-interest bearing note payable for the remaining balance. The note requires principal payments of \$20,000 a year, with expected maturity during 2021. The note is collateralized by the property purchased. The balance outstanding at December 31, 2015 is \$120,000. Future principal payments on the note are as follows:

| | |
|-----------------------------|-------------------|
| Year ending December 31, | |
| 2016 | \$ 20,000 |
| 2017 | 20,000 |
| 2018 | 20,000 |
| 2019 | 20,000 |
| 2020 | 20,000 |
| Thereafter | <u>20,000</u> |
| | <u>\$ 120,000</u> |

ORPHANAGE OUTREACH, INC. DBA OUTREACH360
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2015

NOTE E – IN-KIND CONTRIBUTIONS

In-kind contributions received during the year consist of clothing and other supplies brought by volunteers upon their trips to assist in the Organization's mission. The Organization estimates the value of the items donated and records the value in the financial statements at their fair market value. In-kind contributions received by the Organization for the year ended totaled \$79,245 for the year ended December 31, 2015.

In addition, many individuals have donated significant amounts of their time in organizational governance, program services and resource development efforts. No amounts have been reflected in the statements for these donated services as they did not meet the accounting principles criteria for recognition.

NOTE F – UNCERTAIN TAX POSITIONS

The Organization has implemented GAAP for uncertainty in income taxes. As of December 31, 2015, the Organization had made no changes in the purpose, character or method of operations, and therefore management asserts there are no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended 2014, 2013 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

NOTE G – SUBSEQUENT EVENTS

The Organization evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Management has determined that there were no events that occurred that require additional disclosure. Subsequent events have been evaluated through July 25, 2016, which is the date the financial statements were available to be issued.