

CHILDREN OF PROMISE, INC.
ANDERSON, INDIANA

FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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WHITINGER & COMPANY_{LLC}
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children of Promise, Inc.
Anderson, Indiana

We have audited the accompanying financial statements of Children of Promise, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses 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 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 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 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.

Board of Directors
Children of Promise, Inc.
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OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children of Promise, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Whitiger & Company LLC

Certified Public Accountants
Muncie, Indiana

November 30, 2017

FINANCIAL STATEMENTS

CHILDREN OF PROMISE, INC.STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 119,926	\$ 84,903
Investments	227,642	257,330
Prepaid expenses	<u>5,389</u>	<u>4,428</u>
Total Current Assets	<u>\$ 352,957</u>	<u>\$ 346,661</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements		\$ 26,265
Office furniture and equipment	<u>\$ 25,700</u>	<u>30,774</u>
	\$ 25,700	\$ 57,039
Less accumulated depreciation	<u>(23,330)</u>	<u>(54,131)</u>
Total Property and Equipment	<u>\$ 2,370</u>	<u>\$ 2,908</u>
OTHER ASSETS		
Security deposit		\$ 3,015
Edgar Guyer endowment	\$ 16,983	18,521
Sidney and Jean Ratzlaff Johnson endowment	<u>40,950</u>	<u>5,350</u>
	<u>\$ 57,933</u>	<u>\$ 26,886</u>
Total Assets	<u><u>\$ 413,260</u></u>	<u><u>\$ 376,455</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,564	\$ 2,172
Payroll liabilities	2,827	3,044
Accrued wages	6,945	5,224
Accrued vacation	<u>14,524</u>	<u>21,462</u>
Total Current Liabilities	<u>\$ 26,860</u>	<u>\$ 31,902</u>
NET ASSETS		
Unrestricted	\$ (36,358)	\$ 50,421
Temporarily restricted	381,808	288,782
Permanently restricted	<u>40,950</u>	<u>5,350</u>
Total Net Assets	<u>\$ 386,400</u>	<u>\$ 344,553</u>
Total Liabilities and Net Assets	<u><u>\$ 413,260</u></u>	<u><u>\$ 376,455</u></u>

See accompanying Notes to Financial Statements.

CHILDREN OF PROMISE, INC.

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Support		\$ 1,351,481		\$ 1,351,481
Gifts		121,781	\$ 35,600	157,381
Contributions	\$ 169,608			169,608
	<u>\$ 169,608</u>	<u>\$ 1,473,262</u>	<u>\$ 35,600</u>	<u>\$ 1,678,470</u>
Revenue:				
Management fee income	\$ 337,996			\$ 337,996
Interest and dividend income	4,832	\$ 392		5,224
Unrealized gain (loss) on investments	27,110	(104)		27,006
Realized loss on sale of investments	(5,325)	(336)		(5,661)
Impairment loss				
	<u>\$ 364,613</u>	<u>\$ (48)</u>		<u>\$ 364,565</u>
Total Public Support and Revenue	\$ 534,221	\$ 1,473,214	\$ 35,600	\$ 2,043,035
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of purpose restrictions	1,380,188	(1,380,188)		
	<u>\$ 1,914,409</u>	<u>\$ 93,026</u>	<u>\$ 35,600</u>	<u>\$ 2,043,035</u>
EXPENSES				
Program expenses	\$ 1,571,532			\$ 1,571,532
Supporting Services:				
Management and general	305,890			305,890
Fund raising	123,766			123,766
Total Expenses	<u>\$ 2,001,188</u>			<u>\$ 2,001,188</u>
CHANGE IN NET ASSETS	\$ (86,779)	\$ 93,026	\$ 35,600	\$ 41,847
NET ASSETS AT BEGINNING OF YEAR	<u>50,421</u>	<u>288,782</u>	<u>5,350</u>	<u>344,553</u>
NET ASSETS AT END OF YEAR	<u>\$ (36,358)</u>	<u>\$ 381,808</u>	<u>\$ 40,950</u>	<u>\$ 386,400</u>

2016				
Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Change
	\$ 1,294,759		\$ 1,294,759	\$ 56,722
	155,013	\$ 5,350	160,363	(2,982)
\$ 191,113			191,113	(21,505)
<u>\$ 191,113</u>	<u>\$ 1,449,772</u>	<u>\$ 5,350</u>	<u>\$ 1,646,235</u>	<u>\$ 32,235</u>
\$ 307,893			\$ 307,893	\$ 30,103
6,217	\$ 415		6,632	(1,408)
(11,561)	(834)		(12,395)	39,401
(3,022)	(370)		(3,392)	(2,269)
(23,319)			(23,319)	23,319
<u>\$ 276,208</u>	<u>\$ (789)</u>		<u>\$ 275,419</u>	<u>\$ 89,146</u>
\$ 467,321	\$ 1,448,983	\$ 5,350	\$ 1,921,654	\$ 121,381
<u>1,418,280</u>	<u>(1,418,280)</u>			
<u>\$ 1,885,601</u>	<u>\$ 30,703</u>	<u>\$ 5,350</u>	<u>\$ 1,921,654</u>	<u>\$ 121,381</u>
\$ 1,576,445			\$ 1,576,445	\$ (4,913)
283,756			283,756	22,134
109,522			109,522	14,244
<u>\$ 1,969,723</u>			<u>\$ 1,969,723</u>	<u>\$ 31,465</u>
\$ (84,122)	\$ 30,703	\$ 5,350	\$ (48,069)	<u>\$ 89,916</u>
<u>134,543</u>	<u>258,079</u>	<u>-0-</u>	<u>392,622</u>	
<u>\$ 50,421</u>	<u>\$ 288,782</u>	<u>\$ 5,350</u>	<u>\$ 344,553</u>	

4.

CHILDREN OF PROMISE, INC.STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from management fees	\$ 337,996	\$ 307,893
Cash received from support, gifts, and contributions	1,678,862	1,646,650
Cash paid to suppliers and employees	(613,764)	(531,816)
Cash paid for support to children	(1,377,790)	(1,417,456)
Interest received	4,832	6,217
Interest paid	<u>(10,756)</u>	<u>(8,871)</u>
Net Cash Provided By Operating Activities	<u>\$ 19,380</u>	<u>\$ 2,617</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	\$ (1,329)	\$ (2,371)
Purchase of investments	(12,998)	(124,428)
Endowment contributions to the Church of God Foundation	(40,950)	
Sale of investments	<u>70,920</u>	<u>148,876</u>
Net Cash Provided By Investing Activities	<u>\$ 15,643</u>	<u>\$ 22,077</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 35,023</u>	<u>\$ 24,694</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>84,903</u>	<u>60,209</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 119,926</u></u>	<u><u>\$ 84,903</u></u>

See accompanying Notes to Financial Statements.

RECONCILIATION OF CHANGE IN NET ASSETS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2017</u>	<u>2016</u>
CHANGE IN NET ASSETS	<u>\$ 41,847</u>	<u>\$ (48,069)</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation expense	\$ 1,866	\$ 1,411
Unrealized (gain) loss on investments	(27,006)	12,395
Realized loss on sale of investments	5,661	3,392
Impairment loss		23,319
Change in assets:		
Prepaid expenses	(961)	2,090
Security deposit	3,015	
Other receivables		948
Change in liabilities:		
Accounts payable	392	(6,074)
Payroll liabilities	(217)	2,918
Accrued payroll	<u>(5,217)</u>	<u>10,287</u>
Total Adjustments	<u>\$ (22,467)</u>	<u>\$ 50,686</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 19,380</u></u>	<u><u>\$ 2,617</u></u>

CHILDREN OF PROMISE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 87,651	\$ 195,698	\$ 56,513	\$ 339,862
Payroll taxes	3,674	8,203	2,369	14,246
Employee benefits	18,923	42,248	12,202	73,373
Total Personnel Costs	\$ 110,248	\$ 246,149	\$ 71,084	\$ 427,481
Accounting		10,587		10,587
Advertising and promotion			14,678	14,678
Office expense	1,497	2,551	1,497	5,545
Office rent	12,398	11,515	1,317	25,230
Utilities	3,295	3,060	350	6,705
Travel	39,854		19,036	58,890
Conferences and meetings		1,649		1,649
Cleaning and janitorial	221	377	221	819
Insurance		4,620		4,620
Interest expense	2,904	4,948	2,904	10,756
Support for children	1,377,790			1,377,790
Postage and shipping	12,040	752	2,257	15,049
Telephone	1,825	5,474	1,825	9,124
Computer support		8,699		8,699
Printing and publications	7,130	446	1,337	8,913
Volunteer network		270		270
Staff development		824		824
Miscellaneous	1,826	3,111	6,756	11,693
Total Expenses Before Depreciation	\$ 1,571,028	\$ 305,032	\$ 123,262	\$ 1,999,322
Depreciation	504	858	504	1,866
Total Expenses	\$ 1,571,532	\$ 305,890	\$ 123,766	\$ 2,001,188

See accompanying Notes to Financial Statements.

CHILDREN OF PROMISE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 81,805	\$ 190,096	\$ 57,795	\$ 329,696
Payroll taxes	5,200	12,086	3,674	20,960
Employee benefits	<u>12,098</u>	<u>28,117</u>	<u>8,548</u>	<u>48,763</u>
Total Personnel Costs	\$ 99,103	\$ 230,299	\$ 70,017	\$ 399,419
Accounting		9,666		9,666
Advertising and promotion			7,090	7,090
Office expense	1,735	2,956	1,735	6,426
Office rent	10,697	9,935	1,136	21,768
Utilities	2,885	2,679	306	5,870
Travel	19,723		19,868	39,591
Conferences and meetings		694		694
Cleaning and janitorial	292	498	292	1,082
Insurance		3,849		3,849
Interest expense	2,395	4,081	2,395	8,871
Support for children	1,417,456			1,417,456
Postage and shipping	12,465	779	2,337	15,581
Telephone	1,470	4,409	1,470	7,349
Computer support		9,001		9,001
Printing and publications	6,582	411	1,234	8,227
Volunteer network		800		800
Staff development		901		901
Miscellaneous	<u>1,261</u>	<u>2,149</u>	<u>1,261</u>	<u>4,671</u>
Total Expenses Before Depreciation	\$ 1,576,064	\$ 283,107	\$ 109,141	\$ 1,968,312
Depreciation	<u>381</u>	<u>649</u>	<u>381</u>	<u>1,411</u>
Total Expenses	<u>\$ 1,576,445</u>	<u>\$ 283,756</u>	<u>\$ 109,522</u>	<u>\$ 1,969,723</u>

See accompanying Notes to Financial Statements.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Children of Promise, Inc. was organized in February of 2002 as a nonprofit organization. The purpose of the Organization is to provide assistance to children in ministries of the Church of God outside the United States. The Organization provides assistance in the development of the spiritual, physical, educational, emotional, and social lives of these children. Donors contribute funds for the specific purpose of sponsoring a child in a program in one of twenty-nine countries. Eighty percent of these funds is forwarded to that specific program for distribution to the child by the program director in the form of education costs, uniforms, school supplies, food, medical care, or nutritional supplements. Programs in each country are administered by Church of God leaders or missionaries. Twenty percent of sponsorship payments is retained for management expenses in addition to the unrestricted contributions received for general operations.

Basis of Accounting

The financial statements of Children of Promise, Inc. have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States and accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Under *FASB ASC 958, Not-for-Profit Entities*, the Organization 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.

Unrestricted net assets result from all activities for which no payer or donor-imposed restrictions were stipulated beyond the general stated purpose of the Organization.

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 or lifetime beneficiary interest have ceased. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as satisfaction of purpose restrictions.

Permanently restricted net assets are those restricted by donors in perpetuity. Income received on those funds may be designated by the agreement for specific ministry purpose or may be available for unrestricted use by the Organization.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)*Functional Allocation of Expenses*

The costs of providing programs and administrative functions of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the respective program, administrative, and fund-raising functions to which the expenses relate.

Use of Estimates

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

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are valued at cost for items purchased and at fair market value at date of gift for items donated. Depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from 5 to 39 years.

During the spring of 2016, a decision was finalized by the Church of God Ministries to vacate the building currently under lease by the Organization. The Organization was notified that the fall of 2016 was the timeline for the abandonment of the facility. As a result of the lease termination and forced abandonment of existing leasehold improvements, an impairment loss was recorded within the statement of activities in the amount of \$23,319 as of June 30, 2016. The remaining leasehold improvements were written off as of June 30, 2017.

Investments

In accordance with *FASB ASC 958, Not-for-Profit Entities*, investments are reported at fair value. Fair value is determined by using quoted market prices, where available. Where not available, the present value of estimated, expected future cash flows, or another reasonable method is used. No investment or group of investments represents a significant concentration of market risk.

Investment interest, dividends, and realized and unrealized gains and losses are reported in the accompanying statement of activities as increases or decreases in net assets.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Revenue Recognition*

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase 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 restrictions.

Income Taxes

The Organization has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of *Section 501(c)(3)* of the *Internal Revenue Code* as a tax-exempt organization and is not considered to be a private foundation. Accordingly, no accounting for federal or state income taxes is required in the accompanying financial statements.

The Organization's federal and state income tax returns are subject to examination by taxing authorities, generally for three years after they were filed.

Cash and Cash Equivalents

For purposes of the financial statements, Children of Promise, Inc. considers all monies in banks and highly liquid investments with maturity dates of less than three months to be cash and cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Donated Materials and Services

The Organization receives donated services from a variety of unpaid volunteers assisting the Organization in its mission. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer efforts have not been satisfied.

Advertising Costs

Advertising and promotion costs are generally expensed in the year incurred and are reported in the statement of functional expenses. Costs totaled \$14,678 and \$7,090 for the years ended June 30, 2017 and 2016, respectively.

Subsequent Events

Management has evaluated subsequent events through the date on which the financial statements were made available to be issued. The date is the same as the independent auditor's report date.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

2. **INVESTMENTS**

The cost and market value of investments at June 30, 2017 and 2016, are summarized as follows:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market</u>
June 30, 2017				
Mutual Funds, equity securities	\$ 55,228	\$ 4,476	\$ 6,886	\$ 52,818
Mutual Funds, bonds and notes	109,059	2,697	1,340	110,416
Exchange-traded funds	74,818	6,650	77	81,391
	<u>\$ 239,105</u>	<u>\$ 13,823</u>	<u>\$ 8,303</u>	<u>\$ 244,625</u>
June 30, 2016				
Mutual Funds, equity securities	\$ 74,394	\$ 523	\$ 9,983	\$ 64,934
Mutual Funds, bonds and notes	109,912	698	2,024	108,586
Exchange-traded funds	113,031	190	10,890	102,331
	<u>\$ 297,337</u>	<u>\$ 1,411</u>	<u>\$ 22,897</u>	<u>\$ 275,851</u>

The above market values of investments are reflected in the statement of financial position at June 30, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Investments	\$ 227,642	\$ 257,330
Investments - Edgar Guyer endowment	16,983	18,521
	<u>\$ 244,625</u>	<u>\$ 275,851</u>

The following schedule summarizes the net return on investments for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 5,224	\$ 6,632
Net unrealized gains (losses)	27,006	(12,395)
Capital losses	(5,661)	(3,392)
Investment fees	(1,831)	(1,989)
	<u>\$ 24,738</u>	<u>\$ (11,144)</u>

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

3. CUSTODIAL INVESTMENT

The Organization is custodian over an investment account held for the Tanzanian support and relief program. The account was established to hold and distribute funds for the program. The funds are available only for Tanzanian support and are distributed at the discretion of the Tanzanian support staff. The investment is not considered to be an asset of the Organization; therefore, no account balance has been included in the financial statements. The investment account balance at June 30, 2017 and 2016, was \$124,618 and \$121,569, respectively.

4. BENEFICIAL INTEREST IN ENDOWMENT

In January 2017, an endowment fund was established with the Church of God Foundation (Foundation) in the names of Sidney and Jean Ratzlaff Johnson to provide perpetual support for the operation of the Organization. The Organization's intent for the endowment is to grow and preserve principal while utilizing the income that is generated from the investments. Variance power was not granted to the Foundation. In the event of the Organization's dissolution, the agreement allows for the distribution of funds to other organizations for the needs of children outside of the United States.

5. FAIR VALUE MEASUREMENTS

The following table presents the fair value hierarchy for the financial assets measured at fair value on a recurring basis at June 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds, equity securities:				
Large blend	\$ 22,348	\$ 22,348		
Commodities	5,816	5,816		
Real estate	7,671	7,671		
Domestic energy	16,983	16,983		
Mutual Funds, bonds and notes:				
Non-traditional	19,765	19,765		
Short-term	45,415	45,415		
Intermediate-term	45,236	45,236		
Exchange-traded funds:				
Foreign large blend	32,931	32,931		
Mid-cap value	26,151	26,151		
Commodities	22,309	22,309		
	<u>\$ 244,625</u>	<u>\$ 244,625</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENTS (continued)

The following table presents the fair value hierarchy for the financial assets measured at fair value on a recurring basis at June 30, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds, equity securities:				
Large value	\$ 30,502	\$ 30,502		
Commodities	7,955	7,955		
Real estate	7,956	7,956		
Domestic energy	18,521	18,521		
Mutual Funds, bonds and notes:				
Non-traditional	18,787	18,787		
Short-term	46,562	46,562		
Intermediate-term	43,237	43,237		
Exchange-traded funds:				
Foreign large blend	44,074	44,074		
Mid-cap value	32,976	32,976		
Commodities	25,281	25,281		
	<u>\$ 275,851</u>	<u>\$ 275,851</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

FASB ASC 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly, and Level 3 assets have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs were not used.

Level 1 Fair Value Measurements – The fair value of equity securities, debt securities, and exchange traded funds are based on quoted market prices.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

6. EMPLOYEE BENEFITS

As an affiliate of the Church of God, the Organization participates in the 403(b) retirement plan sponsored by the Church of God. Full-time employees of the Organization may contribute a portion of their earnings to the retirement plan, and the Organization contributes 8% of each participant's earnings to the plan. For the years ended June 30, 2017 and 2016, the Organization expensed as contributions \$17,617 and \$16,324, respectively, to the retirement plan. The Organization also provides health benefits through a fully insured plan to all full-time employees.

7. OPERATING LEASES

The Company leases real estate and equipment under non-cancelable operating lease agreements. Total rent expense under these agreements for the years ended June 30, 2017 and 2016, was \$25,230 and \$21,768, respectively.

The future minimum lease payments under operating leases are as follows:

Year Ending June 30,	Amount
2018	\$ 27,177
2019	25,629
2020	25,629
2021	25,629
2022	6,407
	<u>\$ 110,471</u>

8. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and certificate of deposit balances in two financial institutions located in Anderson, Indiana. The balances of all interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2017, the Organization's cash and certificate balances did not exceed insured limits.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

9. ENDOWMENT

Children of Promise, Inc. holds an endowment in the name of Edgar Guyer which consists of an individual fund established to provide full sponsorships for children in India, or secondarily for children in another Asian country. The endowment fund agreement allows for the distribution of the original gift in the event the investment does not perform sufficiently to provide earnings for distributions. Based on the criteria specified in the endowment agreement, the Organization has classified the endowment as temporarily restricted.

In 2016, the Organization established an endowment in the name of Sidney and Jean Ratzlaff Johnson. In 2017, the Organization moved these funds to the Church of God Foundation. The endowment consists of an individual fund established to provide a means for anyone to make gifts and bequests that will provide continuing financial support for Children of Promise, Inc. Based on the criteria specified in the endowment agreement, the Organization has classified the current contributions to the endowment as permanently restricted.

Endowment net asset composition by type of fund as of June 30, 2017, was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -0-	\$ 17,448	\$ 40,950	\$ 58,398
Total Endowment Funds	<u>\$ -0-</u>	<u>\$ 17,448</u>	<u>\$ 40,950</u>	<u>\$ 58,398</u>

Changes in endowment net assets for the year ended June 30, 2017, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2016	\$ -0-	\$ 18,768	\$ 5,350	\$ 24,118
Contributions			35,600	35,600
Investment income (loss):				
Interest and dividends		392		392
Investment fees				-0-
Realized losses		(336)		(336)
Net unrealized losses		(104)		(104)
Appropriation of endowment assets for expenditures		(1,272)		(1,272)
Endowment net assets at June 30, 2017	<u>\$ -0-</u>	<u>\$ 17,448</u>	<u>\$ 40,950</u>	<u>\$ 58,398</u>

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

9. **ENDOWMENT** (continued)

Endowment net asset composition by type of fund as of June 30, 2016, was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -0-	\$ 18,768	\$ 5,350	\$ 24,118
Total Endowment Funds	<u>\$ -0-</u>	<u>\$ 18,768</u>	<u>\$ 5,350</u>	<u>\$ 24,118</u>

Changes in endowment net assets for the year ended June 30, 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2015	\$ -0-	\$ 20,382	\$ -0-	\$ 20,382
Contributions			5,350	5,350
Investment income (loss):				
Interest and dividends		415		415
Capital gain reinvestments				-0-
Investment fees		(370)		(370)
Net unrealized losses		(834)		(834)
Appropriation of endowment assets for expenditures		<u>(825)</u>		<u>(825)</u>
Endowment net assets at June 30, 2016	<u>\$ -0-</u>	<u>\$ 18,768</u>	<u>\$ 5,350</u>	<u>\$ 24,118</u>

Return Objectives, Risk Parameters, and Strategies for Achieving Objectives

As specified by the endowment agreement, the Organization invests all Edgar Guyer endowment donations in Vanguard Energy fund shares (VGENX). The Organization's primary investment objective is to provide a rate of return sufficient to support the required distributions from the fund.

The Sidney and Jean Ratzlaff Johnson endowment agreement calls for investments through the Church of God Foundation with the intent to conserve the principal for the effective maintenance of purchasing power, and to grow the principal and income to match or exceed the cost of living index without causing unreasonable or excessive risk to the principal. Investments were maintained in cash and money market funds at year end.

CHILDREN OF PROMISE, INC.

NOTES TO FINANCIAL STATEMENTS

9. **ENDOWMENT** (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's spending policy for the funds are specified by the endowment agreements. The Edgar Guyer endowment requires a distribution of 5% of the endowment each January. The distribution is to remain constant regardless of the endowment's investment performance. The annual distribution is to be used to provide full annual sponsorships for children according to the purpose of the endowment. Remaining annual distribution monies will be allocated to the unsponsored children fund for an Asian country determined by the executive director of the Organization.

The board of directors may distribute funds from the Sidney and Jean Ratzlaff Johnson endowment based on their policy determinations. The intention of the fund is to allow for a benefit over an indefinite period of time, with the understanding that circumstances may arise which could require a distribution of funds in excess of the principal. Expenses incurred in managing and maintaining the endowment fund are to be born proportionately by the accounts within the fund and are to be deducted before the distribution of funds.

10. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets represent amounts received by the Organization which are to be used by the Organization for a specific purpose or have a time restriction as to use. At June 30, 2017 and 2016, temporarily restricted net assets designated for future uses are included in cash and cash equivalents and investments as follows:

	2017	2016
Support for children	\$ 331,851	\$ 245,567
Endowment - Edgar Guyer	17,448	18,768
Other miscellaneous projects	32,509	24,447
	\$ 381,808	\$ 288,782