UCMK
Certified Public Accountants

GOOD NEIGHBORS USA

Financial Statements

December 31, 2013

(With Independent Auditors' Report Thereon)

UCMK Certified Public Accountants

Independent Auditors' Report

The Board of Directors
GOOD NEIGHBORS USA:

Report on the Financial Statements

We have audited the accompanying financial statements of GOOD NEIGHBORS USA, which comprise the statement of financial position as of December 31, 2013, 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 U.S. generally accepted accounting principles; 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of GOOD NEIGHBORS USA as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

UCMK & Associates

Los Angeles, California

September 30, 2014

GOOD NEIGHBORS USA

Statement of Financial Position

December 31, 2013

Assets		
Current assets:		
Cash	$	616,310
Prepaid expenses		1,099
Total current assets		617,409
Property and equipment, net		35,756
Security deposits		2,900
Total assets	$	656,065
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$	13,129
Accrued expenses and other current liabilities		11,535
Total current liabilities		24,664
Long-term debt, net of current portion		7,022
Total liabilities		31,686
Net assets:		
Unrestricted		624,379
Commitments and contingencies		
Total liabilities and net assets	$	656,065

See accompanying notes to financial statements.

GOOD NEIGHBORS USA

Statement of Activities

Year ended December 31, 2013

		Unrestricted	Temporarily Restricted	Total
Support and Revenue:				
Contributions	$	784,105	—	784,105
Support from affiliate		1,635,210	—	1,635,210
Interest income		113	—	113
Total support and revenue		2,419,428	—	2,419,428
Expenses:				
Program services:				
Child sponsorship		137,271	—	137,271
Water for life		177,095	—	177,095
Project cook stoves		6,400	—	6,400
Emergency relief		586,010	—	586,010
Other projects		78,745	—	78,745
Indirect program expenses		619,586	—	619,586
Total program services		1,605,107	—	1,605,107
Supporting services:				
Management and general		182,500	—	182,500
Fundraising		153,963	—	153,963
Total supporting services		336,463	—	336,463
Total expenses		1,941,570	—	1,941,570
Change in net assets		477,858	—	477,858
Net assets at beginning of year, as previously presented		146,521	631,470	777,991
Effect of restatement on prior year (note 10)		—	(631,470)	(631,470)
Net assets at end of year	$	624,379	—	624,379

See accompanying notes to financial statements.

GOOD NEIGHBORS USA

Statement of Functional Expenses

Year ended December 31, 2013

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Child sponsorship	$ 137,271	—	—	—	137,271
Water for life	177,095	—	—	—	177,095
Project cook stoves	6,400	—	—	—	6,400
Emergency relief	586,010	—	—	—	586,010
Other projects	78,745	—	—	—	78,745
Automobile expenses	7,816	2,322	2,420	4,742	12,558
Advertising	520	1,261	7,015	8,276	8,796
Administration fees	13,792	—	—	—	13,792
Bank charges	530	12,152	—	12,152	12,682
Communication	6,391	1,865	488	2,353	8,744
Consulting	36,000	—	36,000	36,000	72,000
Depreciation	8,810	5,361	4,574	9,935	18,745
Dues and subscriptions	387	128	172	300	687
Insurance	9,715	26,290	1,949	28,239	37,954
Interest	216	216	216	432	648
Meeting and convention	10,886	3,060	2,417	5,477	16,363
Miscellaneous	1,123	2,028	416	2,444	3,567
Office expenses	4,143	5,102	654	5,756	9,899
Postage and shipping	6,747	3,532	477	4,009	10,756
Professional fees	4,450	21,720	583	22,303	26,753
Rent	36,244	9,203	12,741	21,944	58,188
Repairs and maintenance	4,751	3,942	334	4,276	9,027
Salaries and related taxes	358,277	80,085	67,511	147,596	505,873
Special events	1,514	—	193	193	1,707
Supplies	21,773	1,894	10,286	12,180	33,953
Travel	84,117	1,307	5,303	6,610	90,727
Utilities	1,384	1,032	214	1,246	2,630
	$ 1,605,107	182,500	153,963	336,463	1,941,570

See accompanying notes to financial statements.

GOOD NEIGHBORS USA

Statement of Cash Flows

Year ended December 31, 2013

Cash flows from operating activities:		
Change in net assets	$	477,858
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		18,745
Changes in operating assets and liabilities:		
Prepaid expenses		2,222
Security deposits		1,279
Accrued expenses and other current liabilities		7,098
Net cash provided by operating activities		507,202
Cash flows from financing activity:		
Principal payments on long-term debt		(12,815)
Net increase in cash		494,387
Cash at beginning of year		121,923
Cash at end of year	$	616,310
Supplemental disclosure of cash paid for interest	$	647

See accompanying notes to financial statements.

(1) Organization

GOOD NEIGHBORS USA (the Organization) is an international humanitarian and community development organization incorporated under the laws of the State of California. The Organization is committed to build a global community where people live together in health, harmony, and dignity.

The Organization is an affiliate of Good Neighbors International (GNI), a global network of humanitarian organization with its affiliates in 30 countries and 195 field offices in five continents. As a significant partner of GNI, the Organization shares information and works together with GNI for child education, community development, health, sanitation, and disaster relief aid projects.

The Organization's fundraising, management, and general expenses are fully supported by GNI, so contributions from individual donors are only used for the Organization's direct programs.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for not-for-profit organizations.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily in determining depreciation of property and equipment and allocations of functional expenses.

(c) Cash

The Organization maintains its cash accounts at commercial banks. From time to time, cash balances maintained in one of such banks may exceed $250,000, the maximum insured amount by the Federal Deposit Insurance Corporation. However, management believes they are not exposed to any significant risk on their cash balances.

(d) Contributions

Contributions are recorded as revenue when received, or when an unconditional promise to give has been made. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donors' intent. Donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

(e) Income Taxes

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Donors of cash or property are entitled to the maximum charitable contribution deduction allowed by law.

(Continued)

(f) Advertising Expense

The Organization expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2013 was $8,796.

(g) Property and Equipment

Purchased property and equipment are stated at cost, and donated property and equipment are carried at the approximate fair value at the date of donation. Renewals and betterment that extend the economic useful lives of the related assets are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Upon sale or disposition of assets, gain or loss is included in the statement of activities.

Depreciation on property and equipment is provided on the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 7 years. Leasehold improvements are amortized using the straight line method over the shorter of underlying lease term or the asset's estimated useful life.

Long-lived assets, such as property and equipment subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

(h) Donated Services

In 2013, approximately 30 volunteers participated in the Organization's domestic and international programs. The hours of donated services were approximated 1,700 hours for the year ended December 31, 2013. However, these donated services were not recognized in the accompanying financial statements because they did not meet the criteria for recognition under U.S. generally accepted accounting principles. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-605, *Not-for-Profit Entities - Revenue Recognition*, the donated services must create or enhance nonfinancial assets or require specialized skills to be recognized as revenue. In addition, donated services would typically need to be purchased if not provided by donation.

(i) Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(j) Net Assets

Financial statement presentation follows the recommendations of FASB ASC Topic 958, *Financial Statements of Not-for-profit Organizations*. Under those provisions, net assets are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions
- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time
- Permanently restricted net assets – Net assets subject to donor-imposed restrictions that maintained permanently by the Organization. Generally the donors of such assets permit the Organization to use all or part of the income earned on the assets.

(k) Fair Value of Financial Instruments

The Organization's financial instruments are primarily composed of cash, accrued expenses, and long-term debt. The fair values of these financial instruments closely approximate their carrying values due to their short-term maturities and interest rates not being materially different from the market rates.

The FASB issued ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. The guidance clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as quoted prices in active markets; Level 2, defined as observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3, defined as unobservable inputs about which little or no market data exist, therefore requiring an entity to develop its own assumptions.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (ASC Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The Organization adopted the guidance in ASU 2011-04 effective January 1, 2011, which did not have a material effect on the Organization's financial statements.

(l) Functional Expenses

The Organization allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to such program or supporting service.

Certain costs of joint activities related to fundraising, management and general, and various projects have been allocated as indicated among the programs and supporting services benefited. In its statements of activities and functional expenses, the Organization classifies such costs allocated to the programs as indirect program expenses. Other expenses allocated to supporting services are included in management and general expenses or fundraising expenses based on the nature of the related activities.

(3) Property and Equipment

Property and equipment as of December 31, 2013 consisted of the following:

Automobiles	$	65,198
Computers		10,754
Office equipment		18,145
Furniture and fixtures		5,314
Total costs of property and equipment		99,411
Accumulated depreciation		(63,655)
Net book value of property and equipment	$	35,756

Depreciation expenses related to property and equipment were approximately $19,000 for the year ended December 31, 2013.

(4) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2013 consisted of the following:

Accrued salaries and related taxes	$	4,040
Accrued professional fees		1,000
Credit card payable		5,754
Others		741
Total accrued expenses	$	11,535

(5) Net Assets

The Organization's net assets are classified based on the absence or existence and nature of donor-imposed restrictions. As of December 31, 2013, the Organization did not have any restriction on its net assets.

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(6) Related Party Transactions and Concentration

For the year ended December 31, 2013, the Organization received approximately $1,635,000 from its affiliate, GNI, and recorded the amount as support from affiliate in the statement of activities. Such support from affiliate accounted for approximately 68% of the Organization’s total support and revenue for the year ended December 31, 2013.

(7) Long-term Debt

A summary of long-term debt at December 31, 2013 is as follows:

Auto loan, secured by automobile, bearing interest at 0.92%, maturing in February 2016. Principal and interest of $347 are payable monthly.	$	8,934
Auto loan, secured by automobile, bearing interest at 4.00%, maturing in February 2015. Principal and interest of $427 are payable monthly.		5,826
Auto loan, secured by automobile, bearing interest at 2.95%, maturing in June 2015. Principal and interest of $348 are payable monthly.		5,391
Total long-term debt		20,151
Less current portion of long-term debt		13,129
Total long-term debt, net of current portion	$	7,022

The scheduled repayment of long-term debt is approximately $13,000, $6,000, and $1,000 for the years ended December 31, 2014, 2015, and 2016, respectively.

(8) Commitments and Contingencies

The Organization leases office spaces for its main facility in Los Angeles, California and Arlington, Virginia. The current non-cancellable operating leases expire through October 2017. Approximate future minimum lease payments under these non-cancellable leases as of December 31, 2013 are:

Year ending December 31:		
2014	$	41,000
2015		32,000
2016		33,000
2017		28,000
Total minimum rent payments	$	134,000

Total rent expenses recorded under these leases amounted to approximately $57,000 for the year ended December 31, 2013.

The Organization may be involved in various claims and legal actions arising in the ordinary course of activities. In the opinion of management, the Organization is not involved in matters of which the ultimate disposition will have a material adverse effect on the Organization's financial position, results of operations, or liquidity.

(9) Subsequent Events

The Organization has evaluated subsequent events from the date of the statement of financial position through September 30, 2014, the date at which the financial statements were available to be issued, and determined there have been no subsequent events that occurred during such period that would require disclosure or would be required to be recognized in the financial statements as of December 31, 2013.

(10) Restatement

Subsequent to the issuance of the Organization's financial statements as of and for the year ended December 31, 2012, the Organization's management determined that such financial statements contained errors related to the following item:

The Organization accepts pledges from various parties including general public donors and recognized them as contributions in the prior years. Such transactions are a part of the Organization's ongoing major or central activities. In the prior years, the Organization recognized certain solicitations for donations as contributions, whereby the total amounts to be donated were not clearly determinable. During the fiscal year 2013, management of the Organization determined to correct such erroneously recognized contributions for which cumulative effect amounted to $631,470 as of December 31, 2012.

Accordingly, the Organization properly restated its financial statements as of and for the year ended December 31, 2012. As a result of the correction of this error, the Organization's net assets and unconditional promises to give as of January 1, 2013 decreased by $631,470 each.

		Unrestricted	Temporarily Restricted	Total
Net assets at beginning of year, as previsouly presented	$	146,521	631,470	777,991
Effect of restatement on prior year		—	(631,470)	(631,470)
Net assets at beginning of year, restated		146,521	—	146,521
Change in net assets		477,858	—	477,858
Net assets at end of year	$	624,379	—	624,379