

FAITH IN PRACTICE

FINANCIAL STATEMENTS

AUGUST 31, 2018

(With Independent Auditor's Report Thereon)

Insight. Oversight. Foresight.SM

 **DoerenMayhew**
CPAs AND ADVISORS

FAITH IN PRACTICE

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
of **Faith In Practice**

Report on the Financial Statements

We have audited the accompanying financial statements of Faith In Practice ("FIP"), a Texas nonprofit corporation, which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FIP as of August 31, 2018, 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 cursive script that reads "Doeren Mayhew".

Houston, Texas
April 9, 2019

FAITH IN PRACTICE

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2018

Assets

Cash and cash equivalents (note 11)	\$ 590,435
Other receivables	1,402
Pledges receivable (note 2)	19,000
Prepaid expenses	57,288
Investments in stocks and mutual funds (notes 3, 4 and 11)	2,031,334
Restricted cash (note 1)	160,000
Inventory (note 1)	360,683
Property and equipment, net of accumulated depreciation (note 5)	73,608
Other assets	3,477
	<hr/>
Total assets	\$ 3,297,227

Liabilities and Net Assets

Liabilities:

Accounts payable & accrued expenses	\$ 74,461
Deferred income (note 1)	451,804

Total liabilities

 526,265

Net assets:

Unrestricted net assets (note 1)	2,334,893
Temporarily restricted (note 6)	436,069

Total net assets

 2,770,962

Total liabilities and net assets

 \$ 3,297,227

See accompanying notes to financial statements.

FAITH IN PRACTICE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED AUGUST 31, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:			
Contributions	\$ 2,782,982	\$ 246,131	\$ 3,029,113
Mission trip fees	1,246,818	115,154	1,361,972
In-kind contributions (note 8)	10,825,210	-	10,825,210
Interest and dividends	61,134	-	61,134
Realized gain on investments	105,050	-	105,050
Unrealized loss on investments	(47,368)	-	(47,368)
Net assets released from restrictions (note 7)	965,014	(965,014)	-
	15,938,840	(603,729)	15,335,111
Expenses (note 13):			
Guatemala program	14,041,517	-	14,041,517
Management and general	606,995	-	606,995
Fundraising	735,665	-	735,665
	15,384,177	-	15,384,177
Changes in net assets	554,663	(603,729)	(49,066)
Net assets, beginning of year	1,780,230	1,039,798	2,820,028
Net assets, end of year	\$ 2,334,893	\$ 436,069	\$ 2,770,962

See accompanying notes to financial statements.

FAITH IN PRACTICE

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED AUGUST 31, 2018

	Guatemala Program	Management and General	Fundraising	Total
Auto expenses	\$ 26,551	\$ -	\$ -	\$ 26,551
Bank/credit card charges	106	93,941	12,933	106,980
Board of directors expense	-	2,958	-	2,958
Postage and shipping	58,900	1,376	9,345	69,621
Meals and entertainment	3,627	613	-	4,240
Office expense	38,604	47,933	5,435	91,972
Printing	3,154	-	19,537	22,691
Computer systems maintenance	57,366	27,723	27,723	112,812
Telephone and communications	17,942	12,257	-	30,199
Miscellaneous	-	381	-	381
Special events	-	-	201,412	201,412
General fundraising expenses	-	-	27,064	27,064
Medical and dental supplies	6,372,975	-	-	6,372,975
Professional medical services	4,508,117	-	-	4,508,117
Donations to network organization	673,563	-	-	673,563
Leadership travel	17,521	-	-	17,521
Leadership training conference	35,584	-	-	35,584
Mission team member expenses	729,832	-	-	729,832
Patient travel/care/medical tests	494,286	-	-	494,286
Storage expenses	95,212	-	-	95,212
Insurance	-	11,729	-	11,729
Professional services	3,908	60,208	-	64,116
Depreciation	19,976	6,659	6,659	33,294
Payroll expenses	884,293	341,217	425,557	1,651,067
	<u>\$ 14,041,517</u>	<u>\$ 606,995</u>	<u>\$ 735,665</u>	<u>\$ 15,384,177</u>
Total expenses	<u>\$ 14,041,517</u>	<u>\$ 606,995</u>	<u>\$ 735,665</u>	<u>\$ 15,384,177</u>

See accompanying notes to financial statements.

FAITH IN PRACTICE

STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2018

Cash flows from operating activities:	
Changes in net assets	\$ (49,066)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	33,294
Unrealized loss on investments	47,368
Changes in operating assets and liabilities:	
Other receivables	12,009
Pledges receivables	(3,250)
Prepaid expenses	12,052
Inventory	(5,496)
Other assets	(653)
Accounts payable	26,810
Deferred income	23,178
	<hr/>
Net cash provided by operating activities	96,246
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Cash flows from investing activities:	
Purchases of property and equipment	(11,958)
Purchases of investments	(1,432,612)
Proceeds from sales of investments	1,510,500
	<hr/>
Net cash provided by investing activities	65,930
	<hr/>
Net increase in cash & cash equivalents and restricted cash	162,176
Cash & cash equivalents and restricted cash, beginning of year	588,259
	<hr/>
Cash & cash equivalents and restricted cash, end of year	<u><u>\$ 750,435</u></u>

See accompanying notes to financial statements.

FAITH IN PRACTICE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

Faith In Practice (“FIP”) is a Texas nonprofit corporation which works to improve the medical, spiritual and economic conditions of the poor in Guatemala. The primary purpose of FIP is to provide surgery, medical and dental care to the poor in Guatemala. The services are primarily provided by doctors, dentists and medical professionals and non-medical volunteers in the United States and Guatemala, who donate their time and pay their own expenses to volunteer in Guatemala with FIP. FIP is supported through in-kind contributions, mission fees from its team members and donations.

Basis of Presentation

FIP’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. FIP’s reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets of FIP and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors. Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of FIP and/or the passage of time. This classification includes contributions and unconditional promises to give for which the ultimate purposes of the proceeds are not permanently restricted. Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by FIP.

Generally, the donors of these assets permit FIP to use all of, or part of, the income earned on the related investments for specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Cash and Cash Equivalents

FIP considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents and available for current use.

Amounts excluded from long-term investments are cash and cash equivalents that are classified as restricted cash. At August 31, 2018, restricted cash and cash equivalents amounted to \$160,000.

FAITH IN PRACTICE

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue and is reported within the asset class in which the pledge was originally reported.

Investments

FIP has adopted accounting standards, "Accounting for Certain Investments Held by Non-Profit Organizations." Under the standards, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law. Quoted market prices are used to determine fair values.

Inventory

Inventory is valued at net realizable value or, if donated, at the value assigned by the donor. If the donor does not assign a value, the inventory is valued at fair market value. Inventory consists primarily of medicines and supplies. At August 31, 2018, the inventory included donated medical equipment of \$278,679.

Property and Equipment

Property and equipment is stated at acquisition cost or, if donated, at estimated fair value at the date of donation. Depreciation and amortization is computed principally by the straight-line method over the following estimated useful lives:

Office furniture and equipment	3-5 years
Medical and lab equipment	3-5 years
Vehicles	2-5 years
Software development	3-5 years

Deferred Income

Deferred income, primarily consisting of event contributions and trip fees paid in advance, related to events held in the next fiscal year, have been deferred.

FAITH IN PRACTICE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, FIP reports the contribution as unrestricted.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the asset must be used, the contributions are recorded as restricted. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted.

Conditional promises to give are not included as contributions until the conditions are substantially met. When collected prior to satisfaction of donor restrictions, amounts are reported as refundable advances.

Income Taxes

FIP is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require FIP's management to evaluate tax positions taken by FIP and recognize a tax liability (or asset) if FIP has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. FIP's management has analyzed the tax positions taken by FIP and has concluded that as of August 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the basic financial statements. FIP is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

Functional Allocation of Expenses

The expenses of providing the various programs and activities have been summarized on a functional basis according to the purpose for which the expenses were paid. Certain expenses, which pertain to more than one purpose, were allocated among the various functions based upon their estimated use.

Fair Value of Financial Instruments

FIP's financial instruments consist of receivables, investments and liabilities. Management believes the carrying amount of these financial instruments approximates their fair values.

FAITH IN PRACTICE

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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. Accordingly, actual results could differ from those assumptions.

Recent Financial Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, FIP will use the placed-in service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the FIP's financial statements. As of August 31, 2018, FIP did not early adopt this standard.

Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the current year presentation. There is no impact to changes in net assets.

Note 2 - Pledges Receivable

Pledges receivable are due as follows at August 31, 2018:

Receivables to be collected in less than one year	\$ 19,000
Receivables to be collected in one to five years	<u>-</u>
Pledges receivable	<u>\$ 19,000</u>

Uncollectible pledges receivable was minimal and therefore, no allowance for potentially uncollectible amounts was recorded for the year ended August 31, 2018.

FAITH IN PRACTICE

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 3 - Investments

Investments consist of the following at August 31, 2018:

Equity funds	\$ 642,234
Bond funds	793,915
Global mutual funds	380,819
Real estate funds	66,400
Money market funds	<u>147,966</u>
Total investments	<u>\$ 2,031,334</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of financial position and statement of activities and changes in net assets.

Note 4 - Fair Value of Financial Instruments

FIP's financial instruments are valued at fair value. In accordance with ASC 820, Fair Value Measurements and Disclosures, fair value is 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 reporting date. The standard establishes a fair value hierarchy that prioritizes the assumptions, referred to as inputs, 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of FIP's financial assets are measured at fair value on a recurring basis. The three levels of the fair value hierarchy defined by standards are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 - Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.
- Level 3 - Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally unobservable.

FAITH IN PRACTICE

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 4 - Fair Value of Financial Instruments (Continued)

Financial instruments measured at fair value on a recurring basis at August 31, 2018 are as follows:

	Cost	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Equity funds	\$ 508,445	\$ 642,234	\$ -	\$ -	\$ 642,234
Bond funds	807,393	793,915	-	-	793,915
Global mutual funds	347,600	380,819	-	-	380,819
Real estate funds	57,338	66,400	-	-	66,400
Money market funds	147,966	147,966	-	-	147,966
Total	\$ 1,868,742	\$ 2,031,334	\$ -	\$ -	\$ 2,031,334

Equity funds are valued at the net asset value of shares held at year end. Bond funds securities are valued at par based on management's best estimate as recent trades have been at fair value. Global mutual funds and real estate funds are valued at the net asset value of shares held at year end. Money market funds are valued at cost due to their short-term maturity. The inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security.

Note 5 - Property and Equipment

Property and equipment at August 31, 2018 consisted of the following:

Office furniture and equipment	\$ 67,967
Medical and lab equipment	165,487
Vehicles	8,500
Software development	151,996
Property and equipment subject to depreciation and amortization	393,950
Less: accumulated depreciation and amortization	(320,342)
	\$ 73,608

During the year ended August 31, 2018, depreciation and amortization expense was \$33,294.

FAITH IN PRACTICE

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 6 - Temporarily Restricted Net Assets

At August 31, 2018, temporarily restricted net assets are available for the following purposes:

Hilario Galindo Hospital expansion campaign	\$ 247,322
Mission funds for fiscal year ending 2019	115,154
Shipping container-related expenses	21,565
Sponsorships - various	16,210
Warehouse build-out / inventory projects	14,397
Forklift	10,500
Volcano eruption relief	4,867
Dental preventative program	3,278
Ambulatory aids	<u>2,776</u>
	<u>\$ 436,069</u>

Note 7 - Net Assets Released From Restrictions

For the year ended August 31, 2018, net assets of \$965,014 were released from donor restrictions by incurring expenses satisfying the restricted purpose, which included \$682,440 related to the Hilario Galindo Hospital expansion.

Note 8 - In-Kind Contributions

The office space and storage facility used by FIP is donated. The estimated fair rental value of \$54,347 has been recorded as contributions in-kind for the year ended August 31, 2018.

FIP receives donations of medication and other clinical supplies. These items are valued at the estimated fair value as determined by an independent third-party healthcare organization. For the year ended August 31, 2018, FIP received donations of these supplies amounting to \$6,279,119.

FIP also receives contributed services, which are donations of medical professionals' services. Contributed services of \$4,491,744 were recorded for the year ended August 31, 2018. FIP does not record the value of volunteer time spent by non-medical personnel.

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NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 9 - Related Party Transactions

For the year ended August 31, 2018, twenty-five directors of FIP donated a total of \$235,219 to its operations.

FIP contributed to Asociación La Fe En Práctica (“La Asociación”) (see Note 12) approximately \$51,000 for the year ended August 31, 2018. The condensed financial position and change in net assets of La Asociación as of and for the year ended August 31, 2018 are summarized below:

Condensed statement of net assets information:

Assets	\$ 108,861
Liabilities	<u>(16,255)</u>
Net assets	<u>\$ 92,606</u>

Condensed statement of activities information:

Contributions and donations	\$ 141,718
Expenses	<u>(112,429)</u>
Change in net assets	<u>\$ 29,289</u>

Note 10 - Employee Benefit Plan

FIP has established a 401(k) Plan covering all employees that are at least 21 years old and have completed at least 4 months of service. FIP contributes up to a maximum of 3% of an employee’s annual salary. For the year ended August 31, 2018, FIP made a total annual contribution of \$23,119.

Note 11 - Concentrations of Credit Risk

FIP is subject to concentration of credit risk relating primarily to cash and marketable securities. FIP maintains short-term investments which are reported as a bank money market account not subject to Federal Deposit Insurance Corporation insurance coverage, which represents a concentration of credit risk. Marketable securities consist primarily of domestic bond and equity funds which could subject FIP to losses in the event of a general downturn in the economy. During the year ended August 31, 2018, FIP had deposits in financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation of \$241,671. Management believes that the risk is mitigated by the financial strength of the institutions in which the deposits are held.

FAITH IN PRACTICE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

Note 12 - Commitments and Contingencies

La Asociación

La Asociación is a non-profit organization in Guatemala. The purpose of La Asociación is to support the FIP mission and to provide funds for and manage Casa de Fe. La Asociación is not combined or consolidated with the operations of FIP. FIP and La Asociación have entered into several agreements (see below).

Casa de Fe

FIP, La Asociación and Asociación Obras Sociales del Santo Hermano Pedro, Frailes Franciscanos O.F.M (“Las Obras”) operate under an agreement defining the responsibilities of each party as they relate to managing the Casa de Fe. The Casa de Fe is a guest house in Antigua, Guatemala built to house Las Obras surgery patients and their companions. The term of the agreement is for five (5) years, renewable for equal periods. Any of the parties may terminate the agreement in case of material breach of the other parties 30 days after notification. FIP and La Asociación agree to pay all costs incurred in Casa de Fe related operations, including employment, public services, repair of the building and necessary equipment.

Agency Agreement between Faith In Practice and La Asociación La Fe En Práctica

FIP and La Asociación operate under an agency agreement in which FIP appoints La Asociación as its agent to perform duties in Guatemala as FIP may instruct. As stated in the agreement, FIP sends cash advances to La Asociación for use in conducting the mission of FIP. Cash advances consist of one month’s future expense, at most, therefore mitigating risk.

FIP leases certain employees from La Asociación. Included in this agency agreement is an indemnification clause related to accruals required by Guatemalan law for these employees.

Management has calculated this accrual as of August 31, 2018 to be immaterial to FIP’s financial statements and believes there is a very remote possibility of the circumstances triggering this law to occur.

FAITH IN PRACTICE

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Note 12 - Commitments and Contingencies (Continued)

Operating Lease Agreements

FIP has various operating lease agreements expiring through 2022. For 2018, rental expense amounted to \$19,086. Minimum future lease commitments under operating leases at August 31, 2018 are as follows:

<u>Years Ending</u> <u>August 31,</u>	<u>Amount</u>
2019	\$ 19,372
2020	18,928
2021	9,239
2022	<u>4,833</u>
	<u>\$ 52,372</u>

Note 13 - Functional Expenses

FIP's management and general and fundraising expense to revenue ratio for the year ended August 31, 2018 is as follows:

Management and general expenses	3.96%
Fundraising expenses	4.80%

Note 14 - Date of Management's Review

Management of FIP, the 501(c)(3) organization, has evaluated subsequent events through April 9, 2019, the date which the financial statements were available to be issued. Management has determined that no other subsequent events require disclosure in these financial statements.

*** * * End of Notes * * ***