

TOMORROW CLUBS INTERNATIONAL, INC.

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Tomorrow Clubs International, Inc.

We have audited the accompanying financial statements of Tomorrow Clubs International, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows 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 audits 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 judgement, 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 Tomorrow Clubs International, Inc., as of December 31, 2020 and 2019, 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.

Respectfully submitted,

*Lewis, Kisch & Associates, Ltd.*

April 26, 2021

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 201,037	\$ 288,893
Prepaid Expenses	2,807	
Short-Term Investments	340,149	
Total Current Assets	<u>543,993</u>	<u>288,893</u>
<u>Other Assets</u>		
Investment in HOPE Ukraine	214,000	214,000
Total Assets	<u>\$ 757,993</u>	<u>\$ 502,893</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 4,487	\$ 92
Payroll Taxes Payable	2,539	2,009
Note Payable	200,000	200,000
Total Current Liabilities	<u>207,026</u>	<u>202,101</u>
<u>Net Assets</u>		
Without Donor Restrictions	550,967	300,792
Total Liabilities and Net Assets	<u>\$ 757,993</u>	<u>\$ 502,893</u>

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u>		
<u>Revenues and Support</u>		
Individual Contributions	\$ 745,868	\$ 604,103
Mission Trip Sponsorships		47,876
Foundation Contributions	72,131	22,681
Net Investment Income	1,368	822
Realized and Unrealized Gains (Losses)	149	
Total Revenues and Support	<u>819,516</u>	<u>675,482</u>
<u>Expenses</u>		
Program Services	417,852	448,190
Management and General	84,434	78,577
Fundraising	67,055	48,000
Total Expenses	<u>569,341</u>	<u>574,767</u>
Change in Net Assets Without Donor Restrictions	<u>250,175</u>	<u>100,715</u>
Total Change in Net Assets	<u>250,175</u>	<u>100,715</u>
Total Net Assets, Beginning of Year	300,792	200,077
Total Net Assets, End of Year	<u>\$ 550,967</u>	<u>\$ 300,792</u>

See accompanying notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			
	Program Services	Management and General	Fundraising	Total
Program Funding	\$ 337,121			\$ 337,121
Contract Services	31,247		\$ 59,950	91,197
Salary and Wages	34,100	\$ 41,900	6,600	82,600
Conferences and Meetings	1,140	22		1,162
Credit Card Processing Fees		16,835		16,835
Payroll Taxes	2,609	3,205	505	6,319
Travel	1,109	324		1,433
Employee Benefits	5,062	573		5,635
Bank Charges and Fees	2,790	465		3,255
Marketing and Promotion		3,810		3,810
Telephone and Internet	540	1,805		2,345
Postage and Delivery	130	1,281		1,411
Office Supplies and Software	480	2,012		2,492
Computers and Office Equipment	1,428	757		2,185
Donor Relations		1,494		1,494
State Registrations		685		685
Interest Paid		2		2
Training and Staff Development		411		411
Payroll Services		260		260
Website and Hosting	96	1,793		1,889
Accounting		6,800		6,800
Total Expenses	<u>\$ 417,852</u>	<u>\$ 84,434</u>	<u>\$ 67,055</u>	<u>\$ 569,341</u>
	2019			
	Program Services	Management and General	Fundraising	Total
Program Funding	\$ 302,700			\$ 302,700
Contract Services	33,800	\$ 3,550	\$ 48,000	85,350
Salary and Wages	27,500	37,100		64,600
Mission Trips	39,397			39,397
Conferences and Meetings	13,810	248		14,058
Credit Card Processing Fees		13,312		13,312
Payroll Taxes	2,104	3,273		5,377
Travel	15,538	1,187		16,725
Employee Benefits	5,943	444		6,387
Bank Charges and Fees	2,793	243		3,036
Marketing and Promotion		3,979		3,979
Telephone and Internet	650	1,515		2,165
Postage and Delivery		1,724		1,724
Office Supplies and Software	474	1,648		2,122
Computers and Office Equipment	3,051	577		3,628
Donor Relations		880		880
State Registrations		761		761
Training and Staff Development	430	279		709
Payroll Services		260		260
Website and Hosting		2,016		2,016
Accounting		5,581		5,581
Total Expenses	<u>\$ 448,190</u>	<u>\$ 78,577</u>	<u>\$ 48,000</u>	<u>\$ 574,767</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
<u>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 250,175	\$ 100,715
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Realized and Unrealized (Gains) Losses on Investments	(149)	
(Increase) Decrease in Prepaid Expenses	(2,807)	3,150
Increase (Decrease) in Accounts Payable	4,395	(3,307)
Increase (Decrease) in Payroll Taxes Payable	530	687
Net Cash from (to) Operating Activities	252,144	101,245
<u>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</u>		
Purchases of Short-Term Investments	(340,000)	
Net Cash from (to) Investing Activities	(340,000)	
Net Increase (Decrease) in Cash	(87,856)	101,245
Cash and Cash Equivalents, Beginning of Year	288,893	187,648
Cash and Cash Equivalents, End of Year	\$ 201,037	\$ 288,893
<u>SUPPLEMENTAL INFORMATION</u>		
Interest Paid	\$ 2	

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

**1. Organization**

Tomorrow Clubs International, Inc. (the "Organization"), began in 1997 as part of HOPE International's outreach programming in Ukraine. The Organization became a separate entity in 2016, committed to fulfilling the Great Commission by helping children learn to follow Jesus. The Organization provides weekly Bible clubs to children and teenagers throughout Eastern Europe, bringing them salvation, hope, and—most importantly—long-term discipleship.

At the heart of the Organization's ministry are the relationships that develop as leaders engage with kids at weekly club meetings, teaching them by example what it means to follow Jesus. Kids memorize scripture and learn biblical principles as they work through the Tomorrow Clubs curriculum, and leaders teach valuable life skills in hobby classes such as cooking, woodworking, music, and English language. Each club is run by volunteers from a local church as an outreach to the community, with the goal of connecting kids and their families to the local congregation. Many of the 2,400 volunteer Tomorrow Club leaders started as club members and now want to invest in the next generation.

Supported by charitable contributions and sponsorship of mission trips, the Organization serves more than 17,000 children each week. Most of these children come from unchurched families, often in remote villages where there is little if any opportunity to hear the Gospel. The Tomorrow Clubs are now working in ten Eastern European countries: Albania, Armenia, Belarus, Bosnia-Herzegovina, Georgia, Moldova, Romania, Russia, Serbia, and Ukraine, with about 700 clubs meeting every week.

**2. Summary of Significant Accounting Policies**

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to not-for-profit organizations. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where a donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Organization had no net assets with donor restrictions at December 31, 2020 and 2019.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all cash and highly liquid financial instruments with original maturities of three months or less that are neither held nor restricted by donors for long-term purposes to be cash and cash equivalents.



NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

**2. Summary of Significant Accounting Policies (Continued)**

Short-Term Investments – The Organization records short-term investment purchases at cost, or if donated, at fair market value at the date of donation. Thereafter, short-term investments are reported at their fair values on the statements of financial position. Net investment income is reported on the statements of activities and consists of interest and dividend income, less investment management and custodial fees. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. There were no investment management and custodial fees during the years ended December 31, 2020 and 2019.

Property and Equipment – Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Purchases of less than \$1,000 are expensed in the year purchased. Depreciation is computed using the straight-line method and charged to expense over the estimated useful lives of the assets. Costs of maintenance and repairs that do not improve or extend the useful life of the respective assets are expensed currently. As of December 31, 2020 and 2019, the Organization had no capitalized property or equipment.

Other Investments – The Organization reports its investment in HOPE Ukraine at cost, as its fair value is not practicably estimable. See Note 5 for more information regarding this investment.

Revenues and Revenue Recognition – The Organization recognizes contributions and sponsorships when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor stipulations for their use.

In-Kind Services – The Organization is supported primarily through contributions from individuals and foundations. Additionally, the Organization receives a substantial amount of services donated by volunteers in carrying out its ministry. Donated services are recognized at fair value if the services meet the recognition criteria prescribed by generally accepted accounting principles, which include: a) requiring specialized skills; b) being provided by someone with those skills; and c) would have to be purchased if they were not donated. No amounts have been reflected in the financial statements for donated services because they do not meet the requirements for recognition in the financial statements.

Advertising – Advertising costs, including marketing and promotion, are expensed as incurred.

Functional Allocation of Expenses – The costs of providing the Organization's various program and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes – The Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and similar state statutes and is not considered a private foundation. Management has evaluated for uncertain tax positions and has determined there are no uncertain tax positions as of December 31, 2020. Tax returns for the past three years remain open for examination by tax jurisdictions.

Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk – Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash and cash equivalents. The Organization's cash and cash equivalents balances have been placed with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. The Organization closely monitors these balances and has not experienced credit losses.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

**2. Summary of Significant Accounting Policies (Continued)**

Subsequent Events – Management has performed an evaluation of subsequent events through April 26, 2021, the date the financial statements were available to be issued.

**3. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31:

	<u>2020</u>	<u>2019</u>
Cash	\$ 201,037	\$ 288,893
Short-term investments	340,149	
Total financial assets available for expenditure within one year	<u>\$ 541,186</u>	<u>\$ 288,893</u>

The board of directors has a policy to keep a minimum of 10% of the annual budget on hand in operating accounts. In 2019, the Organization established an interest-bearing brokerage account with a yield of approximately 2.5% in which the excess is held. At December 31, 2020 and 2019, the balance in this account was \$19,996 and \$160,822, respectively.

**4. Fair Value Measurements and Disclosures**

The Organization reports certain assets at fair value in the accompanying financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

*Level 3* – Unobservable inputs for the asset or liability. In these situations, management develops inputs using the best information available in the circumstances.

The Organization's short-term investments are classified within Level 1 because they are comprised of mutual funds with readily determinable fair values based on daily redemption values.

The following table presents assets measured at fair value on a recurring basis as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term bond mutual fund	\$ 340,149			\$ 340,149
Total	<u>\$ 340,149</u>			<u>\$ 340,149</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

**5. Investment in HOPE Ukraine**

In August 2018, a related organization contributed \$16,000 of equity in HOPE Ukraine to Tomorrow Clubs. In September 2018, Tomorrow Clubs purchased an additional \$198,000 of equity in HOPE Ukraine. HOPE Ukraine is a microfinance institution registered in Ukraine as a Finance Company, a for-profit limited-liability company, with the Ukraine State Regulatory Committee of Markets of Financial Services.

The investment in HOPE Ukraine is considered an activity in line with Tomorrow Clubs' mission, as HOPE Ukraine is a key source of funding and other resources for the Organization's ministry in Ukraine.

The Organization has determined that it is not practicable to estimate the fair value of this investment. Additionally, as of April 26, 2021, there are no identified events or changes in circumstances that may have a significant adverse effect on this investment. Therefore, the fair value of Tomorrow Club's investment in HOPE Ukraine is not estimated, and the investment is reported at cost on the statement of financial position.

**6. Note Payable**

On May 16, 2018, the Organization entered into a credit agreement with a related organization. The related organization loaned Tomorrow Clubs International, Inc., \$200,000, of which \$198,000 was invested in HOPE Ukraine (described above). There is no stated interest rate on this loan, and it has no maturity date, but shall be callable at any time by the lender with notice of at least 180 days.

**7. Functionalized Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Many expenses of the Organization are directly allocable to one program or supporting service. Other expenses, which include salaries and wages, payroll taxes, and telephone and internet, are allocated based on estimates of time and effort determined by management.

**8. Related-Party Transactions**

At December 31, 2020 and 2019, the Organization had a \$200,000 note payable to an organization with whom Tomorrow Clubs shares a number of board members. Information regarding this note is detailed in Note 6.

Additionally, during the years ended December 31, 2020 and 2019, the Organization contracted with a board member to provide services related to program oversight and mission trips. The Organization paid this individual \$15,600 and \$14,400 for services provided in 2020 and 2019, respectively.

**9. Uncertainties**

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. It has resulted in significant business disruption, including voluntary and mandated restrictions on business operations, travel, and in-person gatherings. The extent of the impact of the pandemic on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its effects on the Organization's donors, employees, and grantees, none of which, at present, can be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets is uncertain and the accompanying financial statements include no adjustments related to the effects of the pandemic.

**10. Concentrations**

During the years ended December 31, 2020 and 2019, contributions to one organization comprised 43% and 38% of the Organization's total expenses, respectively. Discontinuation of the Organization's support of this entity could significantly affect the Organization's operations.