

TOMORROW CLUBS INTERNATIONAL, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Tomorrow Clubs International, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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 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 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 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, 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.

Respectfully submitted,

Lewis, Kisch & Associates, Ltd.

September 12, 2019

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 187,648
Prepaid Expenses	3,150
Total Current Assets	<u>190,798</u>
<u>Other Assets</u>	
Investment in HOPE Ukraine	214,000
Total Assets	<u><u>\$ 404,798</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 3,399
Payroll Taxes Payable	1,322
Note Payable	200,000
Total Current Liabilities	<u>204,721</u>
<u>Net Assets</u>	
Without Donor Restrictions	200,077
Total Liabilities and Net Assets	<u><u>\$ 404,798</u></u>

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>
<u>REVENUES AND SUPPORT</u>	
Individual Contributions	\$ 533,485
Mission Trip Sponsorships	47,342
Foundation Contributions	34,098
Noncash Contributions	16,000
Miscellaneous Income	1,673
Total Revenues and Support	<u>632,598</u>
<u>EXPENSES</u>	
Program Services	425,837
Management and General	62,248
Fundraising	47,000
Total Expenses	<u>535,085</u>
Change in Net Assets	<u>97,513</u>
Net Assets, Beginning of Year	102,564
Net Assets, End of Year	<u><u>\$ 200,077</u></u>

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program Funding	\$ 285,860			\$ 285,860
Contract Services	37,400		\$ 47,000	84,400
Salary and Wages	27,500	\$ 27,500		55,000
Mission Trips	37,858			37,858
Conferences and Meetings	10,820			10,820
Credit Card Processing Fees		13,016		13,016
Payroll Taxes	2,045	2,045		4,090
Travel	13,535	1,906		15,441
Employee Benefits	4,448	3,066		7,514
Bank Charges and Fees	2,917	323		3,240
Marketing and Promotion		2,022		2,022
Telephone and Internet	557	1,342		1,899
Postage and Delivery	361	1,823		2,184
Office Supplies and Software	63	1,276		1,339
Computers and Office Equipment	1,618			1,618
Donor Relations		1,085		1,085
State Registrations		635		635
Training and Staff Development	855	60		915
Payroll Services		248		248
Website and Hosting		1,509		1,509
Accounting		3,455		3,455
Miscellaneous Expenses		937		937
Total Expenses	<u>\$ 425,837</u>	<u>\$ 62,248</u>	<u>\$ 47,000</u>	<u>\$ 535,085</u>

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

<u>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</u>	
Change in Net Assets	\$ 97,513
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities	
Noncash Contribution of Equity in HOPE Ukraine	(16,000)
(Increase) Decrease in Prepaid Expenses	(1,401)
Increase (Decrease) in Accounts Payable	3,399
Increase (Decrease) in Payroll Taxes Payable	(540)
Net Cash from (to) Operating Activities	<u>82,971</u>
 <u>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</u>	
Purchase of Investment	<u>(198,000)</u>
Net Cash from (to) Investing Activities	(198,000)
 <u>CASH FLOWS FROM (TO) FINANCING ACTIVITIES</u>	
Cash Proceeds from Note Payable	<u>200,000</u>
Net Cash from (to) Financing Activities	200,000
Net Increase in Cash	<u>84,971</u>
Cash, Beginning of Year	102,677
Cash, End of Year	<u><u>\$ 187,648</u></u>
 <u>NONCASH INVESTING ACTIVITIES</u>	
Noncash Contribution of Equity in HOPE Ukraine	<u><u>\$ 16,000</u></u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

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 eleven Eastern European countries: Albania, Armenia, Belarus, Bosnia-Herzegovina, Georgia, Hungary, 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, 2018.

Investments – The Organization reports its investment in HOPE Ukraine at cost, as its fair value is not practicably estimable. See Note 4 for more information regarding this investment.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

2. Summary of Significant Accounting Policies (Continued)

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, 2018, the Organization had no capitalized property or equipment.

Revenues and Revenue Recognition – Contributions and mission trip sponsorships, which may include unconditional promises to give (“pledges”), are recognized as revenues in the period received. These revenues are measured at their fair value and reported as increases in net assets. Contributions and sponsorships received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. They are considered available for unrestricted use unless specifically restricted by the donor. Those contributions and sponsorships that are temporarily restricted by the donor are recorded as increases in unrestricted net assets if the restrictions expire during the fiscal year in which the contributions or sponsorships are received.

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 programs 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, 2018. 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. The Organization’s cash 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, 2018

2. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements – In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which changes how organizations recognize, measure, present, and disclose information about certain financial instruments. Among other changes, the ASU provided an option for entities to measure equity investments without readily determinable fair values at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. ASU 2016-01 is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with adoption in fiscal years beginning after December 15, 2017, permitted. The Organization adopted ASU 2016-01 during the year ended December 31, 2018. In accordance with the provisions of ASU 2016-01, the Organization’s investment in HOPE Ukraine is reported at cost.

Recently Adopted Accounting Pronouncements (Continued) – In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplified and improved how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaced the three former classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions” (described above), and expanded disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization adopted ASU 2016-14 during the year ended December 31, 2018. In accordance with ASU 2016-14, previously reported net assets have been conformed to the current presentation.

Subsequent Events – Management has performed an evaluation of subsequent events through September 12, 2019, 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:

Cash	\$ 187,648
Total	<u>\$ 187,648</u>

The board 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.

4. Investment in HOPE Ukraine

In August 2018, a related organization contributed \$16,000 of equity in HOPE Ukraine to Tomorrow Clubs International, Inc. 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 September 12, 2019, 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.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

5. 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.

6. 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. Such expenses, which include salaries and payroll taxes, are allocated based on estimates determined by management.

7. Concentrations

During the year ended December 31, 2018, contributions to one organization comprised 31.6% of the Organization's total expenses. Discontinuation of the Organization's support of this entity could significantly affect the Organization's operations.