

**FRIENDS IN ACTION INTERNATIONAL**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

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## Independent Auditors' Report

Board of Trustees  
Friends in Action International  
Middletown, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Friends in Action International (the Organization, a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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.

### **Auditors' 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 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 auditors consider internal control relevant to the Organization'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 Organization'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 Friends in Action International as of December 31, 2016 and 2015, 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.

## Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The natural expense classifications are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Brown Schultz Steindler & Fritz*

Camp Hill, Pennsylvania  
August 23, 2017

**FRIENDS IN ACTION INTERNATIONAL**

**STATEMENTS OF FINANCIAL POSITION – DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 143,825	\$ 189,020
Receivables	71,391	80,697
Inventory	5,937	522
Prepaid expenses	2,498	87,523
	<u>223,651</u>	<u>357,762</u>
<b>Total current assets</b>		
	<u>223,651</u>	<u>357,762</u>
<b>Noncurrent assets:</b>		
Long-term prepaid lease	107,582	109,290
Property and equipment, net	<u>3,383,845</u>	<u>3,420,115</u>
<b>Total noncurrent assets</b>	<u>3,491,427</u>	<u>3,529,405</u>
<b>Total assets</b>	<u>\$ 3,715,078</u>	<u>\$ 3,887,167</u>

See notes to financial statements.

## LIABILITIES AND NET ASSETS

	2016	2015
<b>Current liabilities:</b>		
Accounts payable	\$ 82,853	\$ 63,828
Accrued liabilities	42,140	60,796
Deferred revenue	6,000	
Officer loan payable	5,000	
Loan payable to FIAI-Canada	67,948	
Current portion of long-term debt	45,038	46,705
Total current liabilities	248,979	171,329
Long-term debt, net of current portion and debt issuance costs	1,368,158	1,414,520
Total liabilities	1,617,137	1,585,849
<b>Net assets:</b>		
Temporarily restricted	325,775	362,220
Unrestricted	1,772,166	1,939,098
Total net assets	2,097,941	2,301,318
Total liabilities and net assets	\$ 3,715,078	\$ 3,887,167

# FRIENDS IN ACTION INTERNATIONAL

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Public support and revenues:						
Public support:						
Contributions	\$ 274,204	\$ 937,914	\$ 1,212,118	\$ 163,675	\$ 1,608,420	\$ 1,772,095
In-kind contributions				53,416		53,416
	274,204	937,914	1,212,118	217,091	1,608,420	1,825,511
Revenues and gains:						
Fundraising	4,515		4,515	8,935		8,935
Rental income	45,500		45,500	5,425		5,425
Gain on disposal of equipment	17,000		17,000	15,500		15,500
Interest income				98		98
	67,015		67,015	29,958		29,958
Net assets released from restrictions	974,359	(974,359)	-	1,425,883	(1,425,883)	-
Total public support and revenues and gains	1,315,578	(36,445)	1,279,133	1,672,932	182,537	1,855,469
Expenses:						
Program	952,146		952,146	1,108,710		1,108,710
Management and general	516,543		516,543	427,343		427,343
Fundraising	13,821		13,821	23,154		23,154
Total expenses	1,482,510		1,482,510	1,559,207		1,559,207
Change in net assets	(166,932)	(36,445)	(203,377)	113,725	182,537	296,262
Net assets:						
Beginning of year	1,939,098	362,220	2,301,318	1,825,373	179,683	2,005,056
End of year	\$ 1,772,166	\$ 325,775	\$ 2,097,941	\$ 1,939,098	\$ 362,220	\$ 2,301,318

See notes to financial statements.

**FRIENDS IN ACTION INTERNATIONAL**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (203,377)	\$ 296,262
Adjustments:		
Depreciation and amortization	172,911	133,772
Non-cash interest expense	1,218	1,218
Gain on disposal of property and equipment	(17,000)	(15,500)
Donated property and equipment		(41,395)
(Increase) decrease in:		
Receivables	9,306	(66,772)
Inventory	(5,415)	4,288
Prepaid expense	86,733	(85,121)
Increase (decrease) in:		
Accounts payable	19,025	27,502
Accrued liabilities	(18,656)	489
Deferred revenue	6,000	
Net cash provided by operating activities	<u>50,745</u>	<u>254,743</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	17,000	15,500
Purchase of property and equipment	<u>(136,641)</u>	<u>(850,916)</u>
Net cash used in investing activities	<u>(119,641)</u>	<u>(835,416)</u>
Cash flows from financing activities:		
Proceeds from related party loans	72,948	
Proceeds of long-term debt		409,312
Payments on long-term debt	<u>(49,247)</u>	<u>(23,544)</u>
Net cash provided by financing activities	<u>23,701</u>	<u>385,768</u>
Net decrease in cash and cash equivalents	(45,195)	(194,905)
Cash and cash equivalents, including restricted cash account:		
Beginning of year	<u>189,020</u>	<u>383,925</u>
End of year	<u>\$ 143,825</u>	<u>\$ 189,020</u>

(continued)

**FRIENDS IN ACTION INTERNATIONAL**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 76,752	\$ 67,595

**Noncash investing activities:**

Donated parts and equipment in the amount of \$53,416 were received by the Organization in 2015. The Organization capitalized \$41,395 in 2015 as part of property and equipment. The remainder was included as part of repairs and maintenance. There were no in-kind donations of parts and equipment in 2016.

See notes to financial statements.

**FRIENDS IN ACTION INTERNATIONAL**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**1. Nature of activities and significant accounting policies:**

*Nature of activities:*

Friends in Action International (the Organization) is a not-for-profit organization whose purpose is furthering and encouraging the evangelizing of unreached tribal peoples through the planting of indigenous new testament churches and the translation of scripture into indigenous languages.

The Organization fulfills its purpose through contributions received from the general public and other not-for-profit organizations and churches. Contributions to the Organization qualify for the charitable contributions deduction to the extent provided by Section 170 of the Internal Revenue Code. Approximately 15% and 32% of the Organization's public support and revenue was provided by Board members for the years ended December 31, 2016 and 2015, respectively.

*Basis of accounting:*

The Organization prepares its financial statements on the accrual basis of accounting, with support and revenue recognized when earned and expenses recognized when incurred.

*Financial statement presentation:*

Generally accepted accounting principles for nonprofit organizations require the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities and reporting the sources and uses of cash in a statement of cash flows. Net assets and revenues and gains and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions.

*Use of estimates:*

The preparation of financial statements in accordance 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 estimates.

**FRIENDS IN ACTION INTERNATIONAL**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

**1. Nature of activities and significant accounting policies (continued):**

*Cash and cash equivalents:*

The Organization considers all investments in money market funds under a cash management sweep agreement and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Receivables:*

Receivables are stated at the amount management expects to collect from outstanding balances and are not collateralized.

*Inventory valuation:*

Inventory consists of items purchased for use at various mission sites which have not been shipped out as of year-end and are valued at actual cost or estimated cost.

*Property and equipment:*

It is the Organization's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Routine repairs and maintenance are expensed as incurred. Equipment purchased and given to missions with all rights and title of ownership is shown as an expense in the year of purchase and transfer. Equipment and vehicles whose title is retained but are used in overseas projects and not likely to be returned to the United States of America are shown in project vehicles and equipment and depreciated over the useful life of the vehicle or equipment. Property and equipment are depreciated using the straight-line method.

Donations of property and equipment are recorded as contributions at their fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. There were no such restrictions at December 31, 2016 or 2015.

**FRIENDS IN ACTION INTERNATIONAL**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

**1. Nature of activities and significant accounting policies (continued):**

*Contributions:*

Contributions are recorded as unrestricted, temporarily restricted and permanently restricted support depending on the existence or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the donor restrictions. Beginning in April 2016, the Organization considered 10% of certain restricted contributions as unrestricted for administrative costs per their solicitation requests.

*Contributed services:*

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

*Functional allocation of expenses:*

The costs of providing the various activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the functions benefited.

*Income tax status:*

Under provisions of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of Pennsylvania, the Organization has been recognized as exempt from taxes on income other than unrelated business income. The Organization annually files a Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service.

*Reclassifications:*

Certain reclassifications have been made to the 2015 financial statement amounts in order to conform to the 2016 presentation.

*Subsequent events:*

The Organization has evaluated subsequent events through August 23, 2017, which is the date the financial statements were available to be issued.

**FRIENDS IN ACTION INTERNATIONAL**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**2. Concentration of credit risk:**

The Organization's cash balances in financial institutions, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. At December 31, 2016, bank deposits in these accounts totaled \$140,079, which were fully insured by FDIC.

**3. Long-term prepaid leases:**

The long-term prepaid lease represents amounts paid for the lease of land in Santo, Vanuatu. The lease is being amortized over its life of 75 years, and the related rent expense was \$1,708 in each of the years ended December 31, 2016 and 2015.

In 2015, deposits totaling \$87,000 were paid toward a secondary land lease and were recorded as prepaid expenses. In 2016, these funds were returned to the Organization as the land was claimed by an heir of the property. The Organization used these returned funds for other program costs in Vanuatu.

**4. Receivables:**

Receivables consist of the following:

	<u>2016</u>	<u>2015</u>
Shipping ministry	\$ 5,425	\$ 25,791
General	82	1,314
Postage	78	43
Contributions	<u>65,806</u>	<u>53,549</u>
Total receivables	<u>\$ 71,391</u>	<u>\$ 80,697</u>

**FRIENDS IN ACTION INTERNATIONAL**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

**5. Property and equipment:**

	<u>2016</u>	<u>2015</u>
Land	\$ 465,080	\$ 465,080
Buildings	2,368,102	88,446
Improvements	76,746	76,746
Equipment	225,932	215,232
Project vehicles and equipment	1,291,061	1,305,311
Vehicles	23,477	23,477
Construction in progress		<u>2,164,466</u>
	4,450,398	4,338,758
Accumulated depreciation	<u>(1,066,553)</u>	<u>(918,643)</u>
Total	<u>\$ 3,383,845</u>	<u>\$ 3,420,115</u>

**6. Long-term debt, interest expense and change in accounting principle:**

*Adoption of new accounting guidance:*

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance related to the presentation of deferred financing costs. The guidance requires that the carrying amount of the debt liability be presented net of deferred financing costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for deferred financing costs are not affected by the update. The Organization adopted this guidance as of and for the year ended December 31, 2016. The 2015 amount of debt issuance costs of \$16,449 have been reclassified for consistency, resulting in a reduction of total assets and liabilities by \$16,449. The change did not affect net assets.

**FRIENDS IN ACTION INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

**6. Long-term debt, interest expense and change in accounting principle (continued):**

*Notes payable:*

On June 12, 2014, the Organization signed a mortgage construction (drawdown) note agreement in the amount of \$1.5 million. This loan is to be used for the construction of the new administrative building. The terms of the loan are 6.00% interest and require 12 monthly payments of interest only beginning July 2014 followed by 59 payments of principal and interest not to exceed \$9,961 monthly, with a final payment of outstanding principal and interest on June 12, 2020. The loan is secured by the property and any lease rental revenue. For December 31, 2016 and 2015, interest expense net of amounts capitalized was \$77,970 and \$42,146, respectively.

	2016	2015
Franklin Bank mortgage	\$ 1,428,427	\$ 1,477,674
Less deferred loan issuance fees, net	(15,231)	(16,449)
	1,413,196	1,461,225
Less current portion	(45,038)	(46,705)
	\$ 1,368,158	\$ 1,414,520

Future principal payments are as follows:

2017	\$	45,038
2018		51,540
2019		54,176
2020		1,277,673
		\$ 1,428,427

**FRIENDS IN ACTION INTERNATIONAL**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**7. Temporarily restricted net assets:**

Temporarily restricted net assets available for staff support and specified projects are as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
USA Headquarters projects	\$ 85,801	\$ 142,724
Staff support	70,596	28,898
West Africa well drilling	127,288	138,408
India	15,565	15,565
Papua, New Guinea	1,066	
Vanuatu	203	9,914
Russia (Moldova)	6,987	25,171
Bolivia	9,860	1,540
Nicaragua	8,409	
	<u>\$ 325,775</u>	<u>\$ 362,220</u>

**FRIENDS IN ACTION INTERNATIONAL**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**8. Net assets released from restrictions:**

Amounts released from restrictions consisted of amounts expensed predominantly for staff support and specified projects as follows for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
USA Headquarters projects	\$ 103,036	\$ 9,175
Staff support	496,117	636,927
West Africa well drilling	98,105	35,088
India	15,000	10,000
Papua, New Guinea	18,585	23,166
Vanuatu	51,170	430,834
Russia (Moldova)	44,756	85,049
Bolivia	28,829	30,054
Peru		11,036
Nicaragua	<u>118,761</u>	<u>154,554</u>
Total restrictions released	<u>\$ 974,359</u>	<u>\$ 1,425,883</u>

**9. Related entity and related party:**

Effective January 1, 2007, the Organization entered into an agreement with Friends in Action, International – Canada (FIAIC), a separate legal entity chartered under the rules of Canada, to provide financial support to various mission projects run separately by each entity.

In 2016 and 2015, FIAIC provided the Organization \$14,787 and \$43,111, respectively, in support for various mission projects run by the Organization. In 2016 and 2015, the Organization provided FIAIC with support for mission projects totaling \$51,871 and \$38,653, respectively. In addition, FIAIC paid the Organization's portion of a drill rig in Burkina Faso for the Water of Life well drilling project in April 2016. A loan agreement was signed for the funds whereby the Organization agreed to reimburse FIAIC by December 31, 2016. A one year extension was granted. As of December 31, 2016, the outstanding balance on this loan totaled \$67,948.

**FRIENDS IN ACTION INTERNATIONAL**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**9. Related entity and related party (continued):**

In November 2016, a board member advanced \$5,000 to the Organization to assist with compensation for an individual in Vanuatu. A loan agreement was signed whereby the Organization agrees to reimburse the board member by December 31, 2017. The Organization will be required to pay \$1 of interest on this loan. As of December 31, 2016, the outstanding balance on this loan totaled \$5,000.

**10. Operating lease:**

Effective June 1, 2016, the Organization leases 50% of its office building and 100% of the shop area to a third party for \$6,500 per month under a long-term lease agreement that expires on May 31, 2036. The tenant has the right to elect early termination at any time upon 90-days written notice. The lease includes an early termination fee equal to the lesser of 12 times the monthly rent then in effect or the rent payable under the lease for the remainder of the then-existing term.

**FRIENDS IN ACTION INTERNATIONAL**  
**NATURAL EXPENSE CLASSIFICATIONS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Program services:		
Land purchases and leases	\$ 1,708	\$ 1,708
Construction materials	34,476	34,305
Equipment purchases	73,119	3,905
Repairs and maintenance	20,027	48,951
Consumables	12,104	40,178
Supplies	12,642	2,529
National workers support	43,261	50,944
Field operating expenses	53,884	106,478
Forward funds	87,464	127,221
Clothing	4,578	8,006
Insurance	9,957	8,612
Occupancy	1,366	4,933
Vehicle expense	1,905	105
Travel	64,166	43,234
Postage and shipping	34,709	32,317
Office supplies and printing	14,734	9,378
Interest expense	1,218	1,218
Depreciation	103,747	120,732
Staff support	377,081	463,956
	<u>377,081</u>	<u>463,956</u>
Total program services	<u>\$ 952,146</u>	<u>\$ 1,108,710</u>

(continued)

**FRIENDS IN ACTION INTERNATIONAL**

**NATURAL EXPENSE CLASSIFICATIONS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Management and general:		
Repairs and maintenance	\$ 18,728	\$ 36,881
Insurance	4,812	10,147
Occupancy	25,944	33,782
Vehicle expenses	5,065	3,055
Travel	5,409	10,570
Postage and shipping	4,390	6,416
Office supplies and printing	34,700	24,384
Advertising	429	1,117
Dues and training	4,221	2,737
Meetings	200	537
Professional fees	21,460	15,880
Interest expense	76,752	40,928
Bank charges	5,080	7,377
Depreciation	65,706	10,364
Staff support	205,682	213,312
Property taxes	31,506	9,592
Bad debt	3,190	
Miscellaneous	3,269	264
	<u>          </u>	<u>          </u>
Total management and general	<u>\$ 516,543</u>	<u>\$ 427,343</u>

(continued)

**FRIENDS IN ACTION INTERNATIONAL**  
**NATURAL EXPENSE CLASSIFICATIONS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Fundraising:		
Insurance	\$ 235	\$ 294
Donor development	8,766	11,534
Occupancy	69	591
Postage and shipping	68	
Printing and postage	1,225	9,277
Depreciation	<u>3,458</u>	<u>1,458</u>
 Total fundraising	 <u>\$ 13,821</u>	 <u>\$ 23,154</u>