

The 410 Bridge, Inc.
Alpharetta, Georgia

Independent Auditor's Report

Financial Statements

Years ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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BARNES MERRITT & BARNES LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The 410 Bridge, Inc.
Alpharetta, GA

We have audited the accompanying financial statements of The 410 Bridge, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, 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 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 The 410 Bridge, Inc. as of December 31, 2017 and 2016, 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.

Barnes Merritt + Barnes LLC

Atlanta, Georgia
August 1, 2018

The 410 Bridge, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Assets: | | |
| Current assets: | | |
| Cash | \$ 3,732,668 | \$ 3,139,816 |
| Accounts receivable, net (Note A) | - | 37,646 |
| Prepaid expenses | - | 48,820 |
| Pledges and grants receivable (Note A) | 250,532 | 26,500 |
| Other current assets | <u>4,580</u> | <u>4,580</u> |
| Total current assets | 3,987,780 | 3,257,362 |
| Non-current assets: | | |
| Due from related parties (Note C) | 191,140 | 189,965 |
| Property and equipment, net (Note B) | <u>420,512</u> | <u>437,978</u> |
| Total non-current assets | <u>611,652</u> | <u>627,943</u> |
| Total assets | <u>\$ 4,599,432</u> | <u>\$ 3,885,305</u> |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 29,477 | \$ 33,752 |
| Accrued expenses | 101,505 | 98,209 |
| Prepaid trips | - | 325,184 |
| Notes payable (Note G) | <u>45,833</u> | <u>45,833</u> |
| Total current liabilities | <u>176,815</u> | <u>502,978</u> |
| Non-current liabilities: | | |
| Notes payable (Note G) | <u>137,500</u> | <u>183,333</u> |
| Total liabilities | \$ 314,315 | \$ 686,311 |
| Net assets: | | |
| Unrestricted | 1,592,292 | 933,390 |
| Temporarily restricted | <u>2,692,825</u> | <u>2,265,604</u> |
| Total net assets | <u>4,285,117</u> | <u>3,198,994</u> |
| Total liabilities and net assets | <u>\$ 4,599,432</u> | <u>\$ 3,885,305</u> |

The accompanying notes are an integral part of this exhibit.

The 410 Bridge, Inc.

STATEMENT OF ACTIVITIES

For year ended December 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|---------------------|
| Changes in net assets: | | | | |
| Revenues, gains (losses) and other support: | | | | |
| Private gifts and grants | \$ 718,225 | \$ 6,314,156 | \$ - | \$ 7,032,381 |
| Product Sales | 561 | - | - | 561 |
| Interest income | 5,432 | - | - | 5,432 |
| Gain (loss) on sale of asset | (245) | - | - | (245) |
| | <u>723,973</u> | <u>6,314,156</u> | <u>-</u> | <u>7,038,129</u> |
| Reclassifications: | | | | |
| Net assets released from restrictions: | | | | |
| Satisfaction of restrictions | 5,886,935 | (5,886,935) | - | - |
| Operating expenses: | | | | |
| Program services: | | | | |
| Program services | 5,125,590 | - | - | 5,125,590 |
| Supporting services: | | | | |
| Administrative services | 450,876 | - | - | 450,876 |
| Fundraising activities | 375,540 | - | - | 375,540 |
| Total supporting services | 826,416 | - | - | 826,416 |
| Total operating expenses | 5,952,006 | - | - | 5,952,006 |
| Changes in net assets | 658,902 | 427,221 | - | 1,086,123 |
| Net assets, beginning of year | 933,390 | 2,265,604 | - | 3,198,994 |
| Net assets, end of year | <u>\$ 1,592,292</u> | <u>\$ 2,692,825</u> | <u>\$ -</u> | <u>\$ 4,285,117</u> |

The accompanying notes are an integral part of this exhibit.

The 410 Bridge, Inc.

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Changes in net assets: | | | | |
| Revenues, gains (losses) and other support: | | | | |
| Private gifts and grants | \$ 527,986 | \$ 5,776,688 | \$ - | \$ 6,304,674 |
| Interest income | <u>2,762</u> | <u>-</u> | <u>-</u> | <u>2,762</u> |
| Total revenue and other support | <u>530,748</u> | <u>5,776,688</u> | <u>-</u> | <u>6,307,436</u> |
| Reclassifications: | | | | |
| Net assets released from restrictions: | | | | |
| Satisfaction of restrictions | <u>4,343,012</u> | <u>(4,343,012)</u> | <u>-</u> | <u>-</u> |
| Operating expenses: | | | | |
| Program services: | | | | |
| Program services | <u>4,485,177</u> | <u>-</u> | <u>-</u> | <u>4,485,177</u> |
| Supporting services: | | | | |
| Administrative services | 416,221 | - | - | 416,221 |
| Fundraising activities | <u>275,570</u> | <u>-</u> | <u>-</u> | <u>275,570</u> |
| Total supporting services | <u>691,791</u> | <u>-</u> | <u>-</u> | <u>691,791</u> |
| Total operating expenses | <u>5,176,968</u> | <u>-</u> | <u>-</u> | <u>5,176,968</u> |
| Changes in net assets | (303,208) | 1,433,676 | - | 1,130,468 |
| Net assets, beginning of year | <u>1,236,598</u> | <u>831,928</u> | <u>-</u> | <u>2,068,526</u> |
| Net assets, end of year | <u>\$ 933,390</u> | <u>\$ 2,265,604</u> | <u>\$ -</u> | <u>\$ 3,198,994</u> |

The accompanying notes are an integral part of this exhibit.

The 410 Bridge, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017

| | Program Services | Administrative Services | Fundraising Activities | Total |
|----------------------------|---------------------|----------------------------|---------------------------|---------------------|
| Accounting and legal | \$ 5,954 | \$ 53,581 | \$ - | \$ 59,535 |
| Administrative service fee | 10 | 70 | 17 | 97 |
| Advertising | - | - | 61 | 61 |
| Bank charges | 19,359 | 2,151 | - | 21,510 |
| Contract labor | 67,122 | 20,994 | 49,768 | 137,884 |
| Depreciation | 11,161 | 4,895 | 3,525 | 19,581 |
| Dues and subscriptions | - | 4,135 | 16,538 | 20,673 |
| Fundraising | - | - | 27,821 | 27,821 |
| Gifts and donations | 1,154,495 | - | - | 1,154,495 |
| Insurance - general | 5,814 | 17,443 | - | 23,257 |
| Insurance - medical | 30,679 | 13,455 | 9,688 | 53,822 |
| Materials | 259 | - | 777 | 1,036 |
| Meals and lodging | 6,220 | 4,147 | 10,366 | 20,733 |
| Miscellaneous | - | (230) | - | (230) |
| Office | 20,214 | 8,866 | 6,383 | 35,463 |
| Payroll taxes | 46,643 | 20,458 | 14,729 | 81,830 |
| Postage | 2,858 | 1,253 | 903 | 5,014 |
| Printing | 6,563 | 910 | 8,189 | 15,662 |
| Project costs | 3,038,215 | - | - | 3,038,215 |
| Rent | 33,437 | 14,665 | 10,559 | 58,661 |
| Repairs and maintenance | - | 2,388 | - | 2,388 |
| Salaries | 624,808 | 274,038 | 197,308 | 1,096,154 |
| Taxes - licenses | 125 | 325 | - | 450 |
| Telecom and internet | 7,052 | 3,526 | 7,053 | 17,631 |
| Travel | 36,570 | 2,152 | 4,302 | 43,024 |
| Utilities | 3,771 | 1,653 | 1,191 | 6,615 |
| Video production | 4,217 | - | 6,325 | 10,542 |
| Website | 44 | 1 | 37 | 82 |
| Total | <u>\$ 5,125,590</u> | <u>\$ 450,876</u> | <u>\$ 375,540</u> | <u>\$ 5,952,006</u> |
| Percent of total | <u>86%</u> | <u>8%</u> | <u>6%</u> | <u>100%</u> |

The accompanying notes are an integral part of this exhibit.

The 410 Bridge, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016

| | <u>Program Services</u> | <u>Administrative Services</u> | <u>Fundraising Activities</u> | <u>Total</u> |
|--------------------------|-----------------------------|------------------------------------|-----------------------------------|---------------------|
| Accounting and legal | \$ 5,410 | \$ 48,687 | \$ - | 54,097 |
| Advertising | - | - | 536 | 536 |
| Bank charges | 26,122 | 2,902 | - | 29,024 |
| Contract labor | - | 41,796 | - | 41,796 |
| Depreciation | 12,730 | 5,267 | 3,951 | 21,948 |
| Dues and subscriptions | - | 1,987 | 7,946 | 9,933 |
| Fundraising | - | - | 15,152 | 15,152 |
| Gifts and donations | 1,108,539 | - | - | 1,108,539 |
| Insurance - general | 5,622 | 16,866 | - | 22,488 |
| Insurance - medical | 23,913 | 9,896 | 7,421 | 41,230 |
| Meals and lodging | 4,298 | 2,866 | 7,164 | 14,328 |
| Miscellaneous | 266 | (5,655) | 89 | (5,300) |
| Office | 24,103 | 9,974 | 7,480 | 41,557 |
| Payroll taxes | 45,412 | 18,792 | 14,093 | 78,297 |
| Postage | 3,050 | 1,262 | 947 | 5,259 |
| Printing | 6,563 | 1,392 | 12,532 | 20,487 |
| Professional development | 4,978 | 1,659 | - | 6,637 |
| Project costs | 2,576,942 | - | - | 2,576,942 |
| Rent | 21,974 | 9,093 | 6,819 | 37,886 |
| Repairs and maintenance | - | 2,168 | - | 2,168 |
| Salaries | 582,700 | 241,118 | 180,838 | 1,004,656 |
| Supplies | 1,650 | 682 | 512 | 2,844 |
| Taxes - licenses | 125 | 492 | - | 617 |
| Telecom and internet | 6,586 | 3,293 | 6,586 | 16,465 |
| Travel | 23,345 | 1,373 | 2,747 | 27,465 |
| Utilities | - | 297 | - | 297 |
| Video production | 72 | - | 109 | 181 |
| Website | 777 | 14 | 648 | 1,439 |
| Total | <u>\$ 4,485,177</u> | <u>\$ 416,221</u> | <u>\$ 275,570</u> | <u>\$ 5,176,968</u> |
| Percent of total | <u>87%</u> | <u>8%</u> | <u>5%</u> | <u>100%</u> |

The accompanying notes are an integral part of this exhibit.

The 410 Bridge, Inc.

STATEMENTS OF CASH FLOWS

For years ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Changes in net assets: | \$ 1,086,123 | \$ 1,130,468 |
| Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | 19,581 | 21,948 |
| Loss on sale of assets | 244 | - |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 37,646 | (10,924) |
| Due from related parties | (1,175) | 66,956 |
| Prepaid expenses | 48,820 | 20,438 |
| Pledges and grants receivable | (224,032) | 54,571 |
| Other current assets | - | (4,580) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (4,275) | (25,449) |
| Accrued expenses | 3,296 | 36,762 |
| Prepaid trips | (325,184) | 33,700 |
| Notes payable | (45,833) | (45,833) |
| Net cash provided by operating activities | <u>595,211</u> | <u>1,278,057</u> |
| Cash flows from investing activities: | | |
| Purchase of assets | <u>(2,359)</u> | <u>(21,917)</u> |
| Net cash used for investing activities | <u>(2,359)</u> | <u>(21,917)</u> |
| Net increase in cash | 592,852 | 1,256,140 |
| Cash, beginning of year | <u>3,139,816</u> | <u>1,883,676</u> |
| Cash, end of year | <u>\$ 3,732,668</u> | <u>\$ 3,139,816</u> |

The accompanying notes are an integral part of this exhibit.

The 410 Bridge, Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

Note A-Summary of significant accounting policies:

Nature of activities:

The 410 Bridge, Inc. (the “Organization”) is a Christ-centered, not-for-profit organization committed to relentlessly pursuing healthy community development in nations confined by poverty. The Organization sees the poor as the solution to poverty and not the problem to be solved. The Organization engages communities to participate in their own development, restoring their sense of dignity, purpose and freedom. The 410 Bridge, Inc. works alongside local churches and leadership to assess and leverage their community’s gifts and strengths, not just their needs. Working in conjunction with its partners, the Organization activates a unique, holistic approach that combines Christian discipleship, economic development, quality education, and clean water as well as health and wellness to create lasting freedom from poverty. It has a sister not-for-profit organization, The 410 Bridge International, which helps coordinate, direct, and supervise activities and projects in Kenya. The Organization is independently funded through corporate and individual contributions and mission participant contributions.

Method of accounting:

The Organization maintains its accounting records on the accrual basis of accounting. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Financial statement presentation:

The financial statements follow the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 116, “Accounting for Contributions Received and Contributions Made”, and Statement No. 117, “Financial Statements for Not-For-Profit Organizations”.

Under Statement of Financial Accounting Standards No. 117, the net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets-Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets-Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

The 410 Bridge, Inc.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

Years ended December 31, 2017 and 2016

Note A-Summary of significant accounting policies-continued:

Permanently restricted net assets-Net assets subject to donor-imposed restrictions which may be maintained by the Organization on a permanent basis. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Cash and cash equivalents:

For purposes of reporting cash flows, the Organization considers all highly liquid, short-term investments, with an original maturity of three months or less at acquisition, as cash and cash equivalents.

Concentration of credit risk:

The Organization's cash balances in a financial institution exceed federally insured limits. At December 31, 2017 and 2016, the uninsured cash balances totaled \$2,972,110 and \$2,529,436, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts receivables:

Accounts receivable are considered fully collectible. Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. During the years 2017 and 2016, bad debt expense was \$-0- as all accounts receivable were considered fully collectible.

Pledges and grants receivable:

Pledges, including unconditional promises to give, are recognized in the period received. The amounts, if any, less an appropriate allowance, are recorded at their estimated fair value. Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

The 410 Bridge, Inc.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

Years ended December 31, 2017 and 2016

Note A-Summary of significant accounting policies-continued:

Property and equipment:

Property and equipment are stated at cost, or, if donated, at the approximate fair value at the date of donation. Acquisitions of property and equipment in excess of \$1,000 are capitalized.

Depreciation is provided over the estimated useful lives of the respected assets on a straight-line basis. A summary of depreciable lives follows:

| Asset Type | Years |
|-------------------------|--------|
| Buildings | 40 |
| Furniture and equipment | 3 - 10 |
| Leasehold Improvements | 15 |

Income taxes:

The Organization is recognized as exempt from Federal income tax under Internal Revenue Code Section 501(c) (3) whereby only the unrelated business income, as defined by Section 512(a) (1) of the Internal Revenue Code, is subject to Federal income tax. The Organization has been classified as an organization that is not a private foundation under IRC Section 509 (a).

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

The 410 Bridge, Inc.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

Years ended December 31, 2017 and 2016

Note B-Property and equipment, net:

Property and equipment, net at December 31, 2017 and 2016 is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| Buildings | \$ 385,436 | \$ 385,436 |
| Furniture and equipment | 114,091 | 116,576 |
| Leasehold improvements | <u>30,823</u> | <u>30,823</u> |
| Property and equipment | 530,350 | 532,835 |
| Less accumulated depreciation | <u>(109,838)</u> | <u>(94,857)</u> |
| Property and equipment, net | <u>\$ 420,512</u> | <u>\$ 437,978</u> |

Depreciation expense related to property and equipment amounted to \$19,581 and \$21,948 for the years ended December 31, 2017 and 2016, respectively.

Note C-Related party transactions:

Lease: The Organization leased its operating facility from an entity whose owner is the Organization's Founder/Chairman of the Board, through November 30, 2016 when the Organization relocated to a new, unrelated facility. Rent expense under this lease was \$0 and \$33,306 for the years ended December 31, 2017 and 2016, respectively.

Donations: The Organization funds certain special mission projects, and the administration thereof, in Kenya via donations to its sister organization, The 410 Bridge International. Historically, several of the Organization's board members also served on the board of the Kenyan organization. As of December 31, 2017, the Organization and The 410 Bridge International had only one board member in common. Donations made to the Kenyan organization amounted to \$1,152,571 and \$1,021,219 for the years ended December 31, 2017 and 2016, respectively.

The Organization made donations to Canopy Life, a not-for-profit entity whose executive director is a former employee of The Organization. Donations made to this entity totaled \$0 and \$86,266 for the years ended December 31, 2017 and 2016, respectively.

The 410 Bridge, Inc.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

Years ended December 31, 2017 and 2016

Note C-Related party transactions-continued:

Accounts Receivable: The Daraja Children's Choir, Inc. (the Choir) was originally a division of the Organization. When the Choir became an independent entity, the net assets were transferred to the Choir along with the related payable to the Organization. In 2017, the Organization funded additional expenses of the Choir, the majority of which were repaid prior to December 31, 2017. The receivable from the Choir was \$191,140 and \$189,965 at December 31, 2017 and 2016, respectively.

Note D-Commitments:

On December 1, 2016 the Organization entered a five-year lease for its new office space. Rent expense under this agreement was \$55,006 and \$4,580 for the years ended December 31, 2017 and 2016, respectively. The total commitments for the remaining term of this lease as of December 31, 2017 are as follow:

| | | |
|------|----|----------------|
| 2018 | \$ | 55,510 |
| 2019 | | 56,065 |
| 2020 | | 56,625 |
| 2021 | | 57,192 |
| | | <u>57,192</u> |
| | \$ | <u>225,392</u> |

Note E-Temporarily restricted net assets:

Temporarily restricted net assets at December 31, 2017 and 2016 are to be used for the following purposes:

| | | |
|--------------------------|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Special mission projects | <u>\$ 2,692,825</u> | <u>\$ 2,265,604</u> |

The 410 Bridge, Inc.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

Years ended December 31, 2017 and 2016

Note F-Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note G-Long-term debt:

Long-term debt consists of the following note payable at December 31:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Non-interest-bearing note due to a private party, payable in annual installments of \$45,833 through June 2021 | \$ 183,333 | \$ 229,166 |
| Less current portion | <u>(45,833)</u> | <u>(45,833)</u> |
| | <u>\$ 137,500</u> | <u>\$ 183,333</u> |

Maturities of long-term debt for years ending December 31 are as follow:

| | <u>2017</u> | <u>2016</u> |
|------|-------------------|-------------------|
| 2018 | \$ - | \$ 45,833 |
| 2019 | 45,833 | \$ 45,833 |
| 2020 | 45,833 | \$ 45,833 |
| 2021 | 45,834 | \$ 45,834 |
| | <u>\$ 137,500</u> | <u>\$ 183,333</u> |