

DAVID A TURK, CPA, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rapha House International, Inc.

I have audited the accompanying combined financial statements of Rapha House International, Inc. (a nonprofit organization) and affiliates, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined 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

My responsibility is to express an opinion on these financial statements based on my audits. I did not audit the financial statements of American Rehabilitation Ministries-Cambodia, Good Life Foundation, and Good Morning Foundation, affiliates, which statements reflect total assets of \$2,405,188 and \$2,039,017, as of December 31, 2017 and 2016 respectively, and the total support and revenues of \$16,021 and \$9,354 respectively for the years then ended. Those statements were audited by other auditors whose reports have been furnished to me, and my opinion, insofar as it relates to the amounts included for American Rehabilitation Ministries-Cambodia, Good Life Foundation, and Good Morning Foundation is based solely on the reports of the other auditors. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain a 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, based on my audit and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Rapha House International, Inc. and affiliates as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Joplin, Missouri
July 20, 2018

Rapha House International, Inc.

Statement of Financial Position

December 31, 2017

(With Comparative Totals as of December 31, 2016)

	2017	2016
Assets		
Cash, Unrestricted	\$ 387,787	\$ 80,432
Undeposited Funds, Unrestricted	32,083	0
Cash and Undeposited Funds, Temporarily Restricted	638,547	558,978
Accounts Receivable	2,156	6,056
Pledges Receivable	0	166,331
Refundable Deposit	800	800
Inventory	72,216	70,504
Prepaid Rent	45,000	43,000
Land	496,977	416,352
Buildings, net	2,356,819	2,074,822
Equipment and vehicles, net	161,669	175,709
	<u>\$ 4,194,053</u>	<u>\$ 3,592,985</u>
Liabilities and Net Assets		
Liabilities:		
Accounts Payable	\$ 30,292	\$ 143,774
Tax and Payroll Liabilities	4,717	7,241
Line of Credit	511,700	436,521
	<u>546,710</u>	<u>587,537</u>
Net Assets:		
Unrestricted	3,008,796	2,446,470
Temporarily Restricted	638,547	558,978
	<u>3,647,343</u>	<u>3,005,448</u>
	<u>\$ 4,194,053</u>	<u>\$ 3,592,985</u>

See notes to financial statements

Rapha House International, Inc.

Statement of Activities

Year Ended December 31, 2017

(With Comparative Totals for 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	
Revenue:				
Contributions and Grants	\$2,132,782	\$1,066,007	\$3,198,789	\$2,544,736
International Income	16,021		16,021	9,354
Counseling Revenue	6,824		6,824	43,422
Other Income	24,166		24,166	26,611
Gross Merchandise Sales	136,309		136,309	171,025
Cost of Goods Sold	(65,444)		(65,444)	(100,227)
Net Assets Released From Restrictions	986,438	(986,438)		
Total Revenue	3,237,096	79,569	3,316,665	2,694,922
 Expenses:				
			2017	2016
Aftercare Programming	1,243,542		1,243,542	1,200,460
Prevention Programming	290,501		290,501	228,617
Awareness Trip Programming	132,499		132,499	174,427
Contract Services	196,582		196,582	182,253
US Payroll	342,357		342,357	277,188
Facility, Equipment, and Office	127,445		127,445	111,020
Depreciation	134,597		134,597	83,182
Travel and Representation	112,383		112,383	125,563
Other Expenses	94,861		94,861	33,439
Total Expenses	2,674,769		2,674,769	2,416,148
Change in Net Assets	562,327	79,569	641,896	278,774
 Net assets:				
Beginning	2,446,470	558,978	3,005,448	2,726,674
Ending	\$3,008,796	\$638,547	\$3,647,343	\$3,005,448

See notes to financial statements

Rapha House International, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Program Services	General and Administrative	Fundraising	2017 Total	2016 Total
Aftercare Programming	\$ 1,243,542	-	-	\$ 1,243,542	\$ 1,200,460
Prevention Programming	290,501	-	-	290,501	228,617
Awareness Trip Programming	132,499	-	-	132,499	174,427
Contract Services	180,557	8,987	7,038	196,582	182,253
US Payroll	177,316	76,033	89,008	342,357	277,188
Facility, Equipment, and Office	64,490	21,813	41,142	127,445	111,020
Depreciation	131,178	1,710	1,710	134,597	83,182
Travel and Representation	76,807	17,788	17,788	112,383	125,563
Other Expenses	21,945	28,573	44,343	94,861	33,439
	<u>\$ 2,318,836</u>	<u>\$ 154,904</u>	<u>\$ 201,029</u>	<u>\$ 2,674,769</u>	<u>\$ 2,416,148</u>

See notes to financial statements

Rapha House International, Inc.

Statement of Cash Flows
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$641,895	\$278,774
Adjustments to reconcile net revenue to net cash provided by operations:		
Net effect of prior period adjustment*	58,585	40,867
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	3,900	277
Pledges	166,331	(166,331)
Inventory	(1,711)	43,739
Prepaid rent	(2,000)	(43,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	(116,006)	124,198
Net cash from operating activities	<u>750,994</u>	<u>278,524</u>
Cash flows from investing activities:		
Land	(80,625)	(21,096)
Building	(394,209)	(393,000)
Equipment and Vehicles	(8,345)	(47,676)
Depreciation	76,012	41,847
Net cash from investing activities	<u>(407,167)</u>	<u>(419,925)</u>
Cash flows from financing activities:		
Line of credit	75,179	223,049
Net cash from financing activities	<u>75,179</u>	<u>223,049</u>
Net increase (decrease) in cash and cash equivalents	419,006	81,648
Cash and cash equivalents:		
Beginning	639,410	557,762
Ending	<u>\$1,058,417</u>	<u>\$639,410</u>

*See notes to financial statements

Rapha House International, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 1: ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

Rapha House International, Inc. is a non-profit corporation whose main purpose is to end the trafficking and exploitation of children through aftercare for survivors, prevention for the vulnerable, and awareness for all. The entity is active in the USA, Haiti and Southeast Asia.

Method of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Inventory

Inventory consists of items produced by the women and children in their programs and vocational training. These items are recorded at cost. The inventory is in Joplin, Missouri, USA.

Property and Equipment

Property and Equipment are recorded at cost or, if donated, market value at date of donation. Depreciation is provided by the straight-line method over the estimated useful lives (5 to 40 years) of the assets with no salvage value.

Income Taxes

Rapha House International, Inc. is exempt from Federal Income Tax under Section 501 (c)(3) of the Internal Revenue Code. Therefore no provision for income taxes has been made. The organization does file an annual informational "Form 990" with the Internal Revenue Service.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts. For purposes of cash flows, the entity considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets,
Notes

Rapha House International, Inc.
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temporarily restricted net assets, and permanently restricted net assets. These financial statements have been prepared on a going concern basis, which considers the realization of assets and settlement of liabilities in the normal course of business.

Affiliates

Pursuant to FASB ASC 958-810, Rapha House is permitted to present consolidated financial statements with affiliated entities in cases where economic interest and control are present. Accordingly, the financial statements of ARM in Cambodia, GMF in Thailand, GLF in Thailand, and RH Haiti in Haiti are consolidated herein. The individual financial statements of ARM in Cambodia, GMF in Thailand, and GLF in Thailand have been audited by other auditors, and the audits are available upon request.

Public Support and Revenue

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. The value of donated technology services has not been determined nor recorded. The value of contributions of general donated services is considered immaterial and has therefore not been valued and recorded.

NOTE 2: ACCOUNTS RECEIVABLE

The receivables represent money owed to ARM in Cambodia in the amount of \$2,156 which represents program beneficiaries and staff.

NOTE 3: DONATED SERVICES

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

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NOTE 4: LINE OF CREDIT

As of February 6, 2017 a construction line of credit was financed into a 5 year note/line of credit with a fixed interest rate of 5%. The interest is payable monthly with the principal due on February 6, 2022. The note is secured with the collateral of the real estate at 712 S Main St, Joplin, MO 64801. The maximum available credit is reduced annually with the maximum available credit available as of:

02/06/2018 - \$496,000

02/06/2019 - \$480,000

02/06/2020 - \$463,000

02/06/2021 - \$445,000

02/06/2022 - \$427,000 (and principal due)

NOTE 5: PRIOR PERIOD ADJUSTMENT

The activities of GMF and GLF in Thailand had not previously been consolidated with the financial statements of Rapha House International Inc. and the expenses had previously been treated as a grant expense. However, to more clearly present the worldwide operations of the organization, adjustments were made to include the activities and assets of GMF and GLF. Accordingly, such adjustments were retrospectively applied to all prior periods presented pursuant to FASB ASC 250-10-45-21.

NOTE 6: SUBSEQUENT EVENTS

Subsequent events were evaluated through July 20, 2018 which is the date the financial statements were available to be issued.

NOTE 7: CASH AND TEMPORARILY RESTRICTED NET ASSETS

Fulfillment of programs allowed the use of \$986,438 restricted funds consistent with their donor-intended purpose during the year. Of the \$1,016,609 in cash and cash equivalents at year-end, \$638,547 is restricted for specific purposes and programs including Safe House projects (\$481,200), Kids Club projects (\$102,201), and various other purposes (\$55,146).

NOTE 8: FDIC INSURED CASH

The amount of cash held in one financial institution, \$811,827 in Arvest Bank, exceeded the FDIC insurance limit of \$250,000 per depositor by \$561,827.

NOTE 9: PROPERTY AND EQUIPMENT

Buildings, equipment and vehicles are recorded at cost with a minimum capitalization threshold of \$1,000-\$5,000. They are depreciated over their useful lives as follows: Buildings (20-40 years), Equipment and Vehicles (5-10 years).

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Notes to Financial Statements
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	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$2,732,344	\$375,525	\$2,356,819
Equipment and Vehicles	314,492	152,823	161,669
Total	\$3,046,836	\$528,348	\$2,518,488

NOTE 10: PREPAID RENT

The amount of \$45,000 for prepaid rent reflects the amount of rent paid in the current period that will be expensed in 2018 in Haiti.

NOTE 11: CONTINGENCIES:

Rapha House has operations in many countries throughout the world, many of which have volatile political and economic environments. As a result, Rapha House may have financial risks associated with these operations. No assessments or provisions for these risks have been made.

To provide additional protection from these risks, Rapha House may initiate the transfer of assets from one affiliate to another. Rapha House has set in motion such a transfer with preliminary agreements in the year 2018.