

# Heart for Lebanon Foundation

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**Financial Statements**

**Years Ended December 31, 2017 and 2016**

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## **Independent Auditors' Report**

The Board of Directors  
Heart for Lebanon Foundation  
Black Mountain, North Carolina

We have audited the accompanying financial statements of Heart for Lebanon Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities and changes in net assets, 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.

### ***Auditors' 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 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 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 Heart for Lebanon Foundation as of December 31, 2017 and 2016, and the results of 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.

*Dixon Hughes Goodman LLP*

**Asheville, North Carolina  
March 28, 2018**

**Heart for Lebanon Foundation**  
**Statements of Financial Position**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 161,758	\$ 161,193
Investments	199,181	75,067
Cash and cash equivalents, restricted	638,350	1,051,830
Investments, restricted	907,008	871,157
Funds held for others	<u>197,246</u>	<u>147,964</u>
Total current assets	<u>\$ 2,103,543</u>	<u>\$ 2,307,211</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 3,609	\$ -
Funds held-related party	<u>197,246</u>	<u>147,964</u>
Total current liabilities	200,855	147,964
Net assets:		
Unrestricted:		
Undesignated	357,330	236,260
Temporarily restricted	<u>1,545,358</u>	<u>1,922,987</u>
Total net assets	<u>1,902,688</u>	<u>2,159,247</u>
Total liabilities and net assets	<u>\$ 2,103,543</u>	<u>\$ 2,307,211</u>

See accompanying notes.

**Heart for Lebanon Foundation**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 745,004	\$ 3,858,265	\$ 4,603,269
Dividends and interest	56,680	-	56,680
Investment gains, net	62,658	-	62,658
Net assets released from restrictions	4,235,894	(4,235,894)	-
Total support and revenues	<u>5,100,236</u>	<u>(377,629)</u>	<u>4,722,607</u>
Expenses:			
Program services:			
General programs	4,182,691	-	4,182,691
Missionary services	160,000	-	160,000
Total program services	<u>4,342,691</u>	<u>-</u>	<u>4,342,691</u>
Supporting services:			
Management and general	337,092	-	337,092
Fundraising	299,383	-	299,383
Total supporting services	<u>636,475</u>	<u>-</u>	<u>636,475</u>
Total expenses	<u>4,979,166</u>	<u>-</u>	<u>4,979,166</u>
Change in net assets	121,070	(377,629)	(256,559)
Net assets, beginning of year	<u>236,260</u>	<u>1,922,987</u>	<u>2,159,247</u>
Net assets, end of year	<u>\$ 357,330</u>	<u>\$ 1,545,358</u>	<u>\$ 1,902,688</u>

See accompanying notes.

**Heart for Lebanon Foundation**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 442,832	\$ 4,932,393	\$ 5,375,225
Dividends and interest	42,686	-	42,686
Investment losses, net	(29,261)	-	(29,261)
Net assets released from restrictions	<u>4,199,534</u>	<u>(4,199,534)</u>	<u>-</u>
Total support and revenues	<u>4,655,791</u>	<u>732,859</u>	<u>5,388,650</u>
Expenses:			
Program services:			
General programs	3,815,318	-	3,815,318
Missionary services	<u>195,092</u>	<u>-</u>	<u>195,092</u>
Total program services	<u>4,010,410</u>	<u>-</u>	<u>4,010,410</u>
Supporting services:			
Management and general	295,661	-	295,661
Fundraising	<u>369,691</u>	<u>-</u>	<u>369,691</u>
Total supporting services	<u>665,352</u>	<u>-</u>	<u>665,352</u>
Total expenses	<u>4,675,762</u>	<u>-</u>	<u>4,675,762</u>
Change in net assets	(19,971)	732,859	712,888
Net assets, beginning of year	<u>256,231</u>	<u>1,190,128</u>	<u>1,446,359</u>
Net assets, end of year	<u>\$ 236,260</u>	<u>\$ 1,922,987</u>	<u>\$ 2,159,247</u>

**See accompanying notes.**

**Heart for Lebanon Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

	<u>General Programs</u>	<u>Missionary Services</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Total Supporting</u>	<u>Total</u>
Advertising and promotion	\$ 57,987	\$ -	\$ 57,987	\$ 58,662	\$ 123,388	\$ 182,050	\$ 240,037
Communications	14,142	-	14,142	23,661	10,504	34,165	48,307
Compensation	32,893	-	32,893	65,786	32,893	98,679	131,572
Contract services	52,500	-	52,500	94,500	63,000	157,500	210,000
Direct funding	3,958,626	160,000	4,118,626	-	-	-	4,118,626
Insurance	-	-	-	5,276	-	5,276	5,276
Investment and bank fees	8,523	-	8,523	7,452	-	7,452	15,975
Office expenses	2,341	-	2,341	7,024	-	7,024	9,365
Professional fees	-	-	-	25,684	-	25,684	25,684
Rent and Utilities	-	-	-	32,400	-	32,400	32,400
Telephone	-	-	-	2,727	-	2,727	2,727
Travel and transportation	55,679	-	55,679	13,920	69,598	83,518	139,197
Total expenses	<u>\$ 4,182,691</u>	<u>\$ 160,000</u>	<u>\$ 4,342,691</u>	<u>\$ 337,092</u>	<u>\$ 299,383</u>	<u>\$ 636,475</u>	<u>\$ 4,979,166</u>

See accompanying notes.

**Heart for Lebanon Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2016**

	<u>General Programs</u>	<u>Missionary Services</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fund-Raising</u>	<u>Total Supporting</u>	<u>Total</u>
Advertising and promotion	\$ 16,737	\$ -	\$ 16,737	\$ 19,147	\$ 209,361	\$ 228,508	\$ 245,245
Communications	-	-	-	21,671	-	21,671	21,671
Contract services	31,200	-	31,200	187,200	93,600	280,800	312,000
Direct funding	3,692,721	195,092	3,887,813	-	-	-	3,887,813
Insurance	-	-	-	737	-	737	737
Investment and bank fees	19,109	-	19,109	3,864	-	3,864	22,973
Office expenses	-	-	-	12,214	-	12,214	12,214
Professional fees	2,167	-	2,167	35,595	-	35,595	37,762
Telephone	-	-	-	1,887	-	1,887	1,887
Travel and transportation	53,384	-	53,384	13,346	66,730	80,076	133,460
Total expenses	<u>\$ 3,815,318</u>	<u>\$ 195,092</u>	<u>\$ 4,010,410</u>	<u>\$ 295,661</u>	<u>\$ 369,691</u>	<u>\$ 665,352</u>	<u>\$ 4,675,762</u>

See accompanying notes.

**Heart for Lebanon Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets:	\$ (256,559)	\$ 712,888
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized losses on investments	(62,658)	29,261
Changes in operating assets and liabilities:		
Accounts payable and other current liabilities	<u>3,609</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>(315,608)</u>	<u>742,149</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(613,940)	(651,034)
Proceeds from sale of investments	<u>516,633</u>	<u>229,996</u>
Net cash used by investing activities	<u>(97,307)</u>	<u>(421,038)</u>
Increase (decrease) in cash	(412,915)	321,111
Cash and cash equivalents, beginning of year	<u>1,213,023</u>	<u>891,912</u>
Cash and cash equivalents, end of year	<u>\$ 800,108</u>	<u>\$ 1,213,023</u>
As presented on statements of financial position:		
Cash and cash equivalents	\$ 161,758	\$ 161,193
Cash and cash equivalents, restricted	<u>638,350</u>	<u>1,051,830</u>
Cash and cash equivalents, end of year	<u>\$ 800,108</u>	<u>\$ 1,213,023</u>

See accompanying notes.

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies**

#### ***Nature of Foundation***

Heart for Lebanon Foundation (the "Foundation") was incorporated on June 25, 2007 and is a nonprofit corporation whose purpose is to facilitate proper education, provide humanitarian aid, strengthen community development, and to assist individuals living within the country of Lebanon in recovering from the effects of war through the provision of relief supplies and services.

The Foundation's support comes primarily through fundraising events, individual contributions and corporate contributions.

#### ***Basis of accounting***

The Foundation's financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### ***Financial statement presentation***

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets.* Unrestricted net assets are expendable resources used to support the Foundation's administrative and general functions. These net assets may be designated by the Foundation for specific purposes under internal operating and administrative arrangements or be allocated to be used for a specific program. All expenses are recorded as a reduction of unrestricted net assets.

*Temporarily restricted net assets.* Temporarily restricted net assets are grants from various sources such as individuals, foundations, not-for-profit organizations, and churches. These grant revenues are subject to certain grantor requirements and are released when the Foundation incurs related expenses that satisfy the grantor's purpose.

*Permanently restricted net assets.* There are no permanently restricted net assets.

#### ***Use of estimates***

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

#### ***Cash and cash equivalents***

For the purpose of the statement of cash flows, the Foundation considers all money market account balances to be cash equivalents, except those that are part of the investment portfolio.

#### ***Investments***

Investments in marketable securities that have readily determinable fair values and all debt securities are stated at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net

## **Heart for Lebanon Foundation Notes to Financial Statements**

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assets in the accompanying statement of activities. The Foundation maintains money market funds and mutual funds which are stated at fair value based on market price on December 31, 2017 and 2016.

Investment income is recorded net of investment expenses. For the years ended December 31, 2017 and 2016, investment expenses were \$15,195 and \$9,743, respectively.

The Foundation's investment portfolio is exposed to various risks, such as interest rate risk, market risk, and credit risk. Because of the level of risk associated with such investments, changes in their values will occur, and such changes could materially affect the amounts reported in the Foundation's financial statements.

### ***Funds held for others and funds payable to related party***

The Foundation has a separate segregated investment fund that is for the sole benefit of the Foundation's Chief Executive Officer who lives and is based in Lebanon. This fund's activity is not included on the Foundation's financial statement since the activity belongs to the Chief Executive Officer.

### ***Contributions and revenue recognition***

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the 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.

### ***Donated services***

The Foundation receives donated services from a variety of unpaid volunteers assisting in its activities. Contributed services are recorded only if the service creates or enhances nonfinancial assets, requires a specialized skill, is performed by persons possessing those skills and would otherwise have to be purchased. There were no contributed services that met these criteria.

### ***Functional Expenses***

The Foundation allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their nature and expenditure classification. Other expenses that are common to two or more functions are allocated based on management's estimate of the program activities benefited. General and administrative expense provide for the overall support and direction of the Foundation.

### ***Income Taxes***

Heart for Lebanon Foundation is incorporated as a nonprofit corporation under the laws of the State of North Carolina. It qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is not subject to federal income taxes except for income from its unrelated business activities. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as a Foundation that is not a private foundation under Section 509(a)(2).

### ***Tax Positions***

The Foundation follows the provisions of "Accounting for Uncertainty in Income Taxes" issued by the Financial Accounting Standards Board ("FASB") which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of nonprofit foundations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Foundation's financial statements.

## Heart for Lebanon Foundation Notes to Financial Statements

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The Foundation analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt Foundation, activities performed by volunteers and board members, the reporting of unrelated business income, and its status as a tax-exempt foundation under North Carolina state statute. The Foundation does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Foundation's financial position or changes in net assets as a result of analyzing its tax positions.

### **Advertising Costs**

Advertising costs are charged to operations when incurred.

### **Conflict of Interest Policy**

It is the policy of the Foundation that all officers and directors shall disclose any conflict of interest between their own individual interests and the interests of the Foundation. The Foundation has a conflict of interest policy whereby board members must advise the board of any direct or indirect interest in any transaction or relationship with the Foundation and not participate in discussions and decisions regarding any action affecting their individual, professional, or business interests.

### **Subsequent Events**

Subsequent events were reviewed for the Foundation through September 28, 2018, the date the financial statements were available to be issued.

## **2. Investments**

Investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investments:		
Investments	\$ 199,181	\$ 75,067
Investments, restricted	<u>907,008</u>	<u>871,157</u>
	<u>\$ 1,106,189</u>	<u>\$ 946,224</u>
Marketable securities:		
Equities	\$ 590,118	\$ 257,294
Fixed income	509,701	484,124
Other	<u>6,370</u>	<u>204,806</u>
	<u>\$ 1,106,189</u>	<u>\$ 946,224</u>

**Heart for Lebanon Foundation**  
**Notes to Financial Statements**

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**3. Restrictions on Net Assets**

Temporarily restricted net assets consist of contributions restricted by donors for particular purposes. The remaining portion of such contributions as of December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Relief & community care	\$ 1,214,841	\$ 1,301,224
Children at risk	328,716	132,620
Capital campaign	<u>1,801</u>	<u>489,143</u>
	<u>\$ 1,545,358</u>	<u>\$ 1,922,987</u>

**4. Restricted Contributions**

Total restricted contributions for the year ending December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Relief & community care	\$ 2,238,195	\$ 2,462,408
GSL opportunities	-	278,627
Children at risk	867,410	887,489
Missionary services	-	171,993
Capital campaign	<u>752,660</u>	<u>1,131,876</u>
	<u>\$ 3,858,265</u>	<u>\$ 4,932,393</u>

**5. Related Party Transactions**

Heart for Lebanon, a legal nongovernmental organization in Lebanon, received a total of approximately \$3,959,000 and \$3,693,000 during the years ended December 31, 2017 and 2016, respectively, from the Foundation.

Dr. Camille Melki is the Chief Executive Officer for the Foundation and the affiliated Heart for Lebanon based in Lebanon. Dr. Melki is contracted annually by the Foundation's Board of Directors to serve as a missionary who raises his own financial support, and as Chief Executive Officer, to oversee the day-to-day operations of the affiliated Lebanese organization. He reports to and is accountable to the Foundation's Board of Directors and the affiliated Lebanese organization's General Assembly. During the years ended December 31, 2017 and 2016, the Chief Executive Officer received approximately \$160,000 and \$155,000, respectively, in missionary support.

The Foundation has a separate segregated investment fund that is for the sole benefit of the Chief Executive Officer. This fund's activity is not included on the Foundation's financial statement since it is considered to be the Chief Executive Officer's fund. The investment balance of this fund was \$197,246 and \$147,964 as of December 31, 2017 and 2016, respectively.

The members of the Foundation's board of directors contributed approximately \$23,700 and \$20,100 in 2017 and 2016, respectively.

**Heart for Lebanon Foundation**  
**Notes to Financial Statements**

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The Foundation contracts services for day-to-day operations with a company that is related to a board member. In December 31, 2017 and 2016, the Foundation paid \$150,000 and \$371,507, respectively, to this company to perform the general administration function and the fundraising function. The Foundation also used a company related to a board member to facilitate radio advertisements. The Foundation reimbursed the company \$205,915 and \$202,734 during the years ended December 31, 2017 and 2016 for these advertisements.

During 2017, the Foundation began renting office space from a relative of the Chief Operating Officer. During 2017 and 2016, the Foundation paid \$32,400 and \$ - in rental expense.

Minimum future lease payments are estimated as follows:

2018	\$	33,600
2019		36,000
2020		<u>40,800</u>
Total	\$	<u>110,400</u>

**6. Concentration of Credit Risk and Contingencies**

The Foundation's cash deposit balances on occasion may exceed the FDIC limit during the year. Management believes that it is not exposed to any significant credit risk on its cash balances.

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist of money market accounts and investment securities. The Foundation has significant investment in various types of mutual funds and therefore, is subject to concentration of credit risk. Investments are made by an investment manager engaged by the Foundation, and is monitored by the board of directors. Although the fair value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its purpose.

**7. Concentration of Revenue and Support**

In 2017 and 2016, the Foundation received 32% and 34%, respectively, of its support from three donors. Revenues from the major sources for the years ending December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Christian Ministry Organization 1	\$ 746,100	\$ 734,200
Not-for-profit	434,000	590,000
Church	-	527,768
Christian Ministry Organization 2	290,000	-
All other sources	<u>3,133,169</u>	<u>3,523,257</u>
	<u>\$ 4,603,269</u>	<u>\$ 5,375,225</u>

**Heart for Lebanon Foundation**  
**Notes to Financial Statements**

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**8. Functional Allocation of Expenses**

The Foundation provides direct funding for programs based in Lebanon. This amount was remitted to an affiliated Foundation in Lebanon. Management and general expenses consisted mainly of financial administration expenses and for day-to-day operations. Fund raising expenses are costs related to fundraising campaigns in the United States and related travel and communication costs.

The direct funding program expenditures in 2017 and 2016 were for the following:

	<u>2017</u>	<u>2016</u>
Administration	\$ 62,313	\$ 57,160
GSL Opportunities	-	283,626
Relief and Community Care	2,129,000	2,259,740
Children at Risk	596,813	476,984
Capital Campaign	<u>1,170,500</u>	<u>615,211</u>
	<u>\$ 3,958,626</u>	<u>\$ 3,692,721</u>

**9. Fair Value Measurements**

Assets recorded at fair value in the statement of position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

- Level 1. Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2. Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, quoted market prices for identical assets or liabilities in inactive markets, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3. Significant unobservable inputs reflecting management's own assumptions about the inputs used in determining the fair value.

Fair values of assets measured on a recurring basis as of December 31, 2017 and 2016 are as follows:

	<u>Assets at Fair Value as of December 31, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 1,106,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,106,189</u>
	<u>Assets at Fair Value as of December 31, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 946,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 946,224</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.