

Heart for Lebanon Foundation

Financial Statements

Years Ended December 31, 2019 and 2018

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Functional Expenses	5
Statements of Cash Flows.....	7
Notes to Financial Statements	8



Independent Auditors' Report

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, 2019 and 2018 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, 2019 and 2018, 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
April 7, 2020**

Heart for Lebanon Foundation
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,176,877	\$ 584,540
Investments	1,665,389	580,881
Cash and cash equivalents, restricted	118,340	352,417
Investments, board designated	531,717	871,157
Funds held for others	-	205,693
	<u> </u>	<u> </u>
Total current assets	<u>\$ 3,492,323</u>	<u>\$ 2,594,688</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 9,714	\$ 16,160
Funds held-related party	-	205,693
	<u> </u>	<u> </u>
Total current liabilities	<u>9,714</u>	<u>221,853</u>
 Net assets:		
Without donor restrictions	3,364,269	2,020,418
With donor restrictions	118,340	352,417
	<u> </u>	<u> </u>
Total net assets	<u>3,482,609</u>	<u>2,372,835</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 3,492,323</u>	<u>\$ 2,594,688</u>

See accompanying notes.

Heart for Lebanon Foundation
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2019

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 2,495,985	\$ 3,149,446	\$ 5,645,431
Dividends and interest	74,943	-	74,943
Investment gain, net	213,122	-	213,122
Net assets released from restrictions	3,383,523	(3,383,523)	-
Total support and revenues	<u>6,167,573</u>	<u>(234,077)</u>	<u>5,933,496</u>
Expenses:			
Program services:			
General programs	3,731,319	-	3,731,319
Missionary services	160,000	-	160,000
Total program services	<u>3,891,319</u>	<u>-</u>	<u>3,891,319</u>
Supporting services:			
Management and general	508,357	-	508,357
Fundraising	424,046	-	424,046
Total supporting services	<u>932,403</u>	<u>-</u>	<u>932,403</u>
Total expenses	<u>4,823,722</u>	<u>-</u>	<u>4,823,722</u>
Change in net assets	1,343,851	(234,077)	1,109,774
Net assets, beginning of year	<u>2,020,418</u>	<u>352,417</u>	<u>2,372,835</u>
Net assets, end of year	<u>\$ 3,364,269</u>	<u>\$ 118,340</u>	<u>\$ 3,482,609</u>

See accompanying notes.

Heart for Lebanon Foundation
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2018

(Continued)

	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Support and revenues:			
Contributions	\$ 1,344,469	\$ 3,796,599	\$ 5,141,068
Dividends and interest	63,798	-	63,798
Investment loss, net	(176,411)	-	(176,411)
Net assets released from restrictions	3,628,671	(3,628,671)	-
Total support and revenues	<u>4,860,527</u>	<u>167,928</u>	<u>5,028,455</u>
Expenses:			
Program services:			
General programs	3,667,039	-	3,667,039
Missionary services	160,000	-	160,000
Total program services	<u>3,827,039</u>	<u>-</u>	<u>3,827,039</u>
Supporting services:			
Management and general	379,680	-	379,680
Fundraising	351,589	-	351,589
Total supporting services	<u>731,269</u>	<u>-</u>	<u>731,269</u>
Total expenses	<u>4,558,308</u>	<u>-</u>	<u>4,558,308</u>
Change in net assets	302,219	167,928	470,147
Net assets, beginning of year	<u>1,718,199</u>	<u>184,489</u>	<u>1,902,688</u>
Net assets, end of year	<u>\$ 2,020,418</u>	<u>\$ 352,417</u>	<u>\$ 2,372,835</u>

See accompanying notes.

Heart for Lebanon Foundation
Statements of Functional Expenses
Year Ended December 31, 2019

	<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	\$ 60,125	\$ -	\$ 60,125	\$ 52,913	\$ 120,302	\$ 173,215	\$ 233,340
Communications	19,431	-	19,431	23,227	9,379	32,606	52,037
Compensation	101,004	-	101,004	202,008	101,004	303,012	404,016
Contract services	79,252	-	79,252	142,654	95,102	237,756	317,008
Direct funding	3,388,648	160,000	3,548,648	-	-	-	3,548,648
Insurance	-	-	-	2,331	-	2,331	2,331
Office expenses	4,252	-	4,252	4,252	-	4,252	8,504
Professional fees	-	-	-	30,290	-	30,290	30,290
Rent and Utilities	-	-	-	38,351	-	38,351	38,351
Telephone	-	-	-	2,680	-	2,680	2,680
Travel and transportation	78,607	-	78,607	9,651	98,259	107,910	186,517
Total expenses	<u>\$ 3,731,319</u>	<u>\$ 160,000</u>	<u>\$ 3,891,319</u>	<u>\$ 508,357</u>	<u>\$ 424,046</u>	<u>\$ 932,403</u>	<u>\$ 4,823,722</u>

See accompanying notes.

Heart for Lebanon Foundation
Statements of Functional Expenses
Year Ended December 31, 2018

(Continued)

	<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	\$ 60,680	\$ -	\$ 60,680	\$ 60,774	\$ 121,392	\$ 182,166	\$ 242,846
Communications	16,810	-	16,810	26,594	10,837	37,431	54,241
Compensation	120,797	-	120,797	60,398	60,398	120,796	241,593
Contract services	73,963	-	73,963	133,134	88,755	221,889	295,852
Direct funding	3,335,928	160,000	3,495,928	-	-	-	3,495,928
Insurance	-	-	-	3,247	-	3,247	3,247
Office expenses	2,695	-	2,695	8,084	-	8,084	10,779
Professional fees	-	-	-	38,115	-	38,115	38,115
Rent and Utilities	-	-	-	38,045	-	38,045	38,045
Telephone	-	-	-	2,344	-	2,344	2,344
Travel and transportation	56,166	-	56,166	8,945	70,207	79,152	135,318
Total expenses	<u>\$ 3,667,039</u>	<u>\$ 160,000</u>	<u>\$ 3,827,039</u>	<u>\$ 379,680</u>	<u>\$ 351,589</u>	<u>\$ 731,269</u>	<u>\$ 4,558,308</u>

See accompanying notes.

Heart for Lebanon Foundation
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,109,774	\$ 470,147
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gains)/losses on investments	(213,122)	176,411
Changes in operating assets and liabilities:		
Accounts payable and other current liabilities	<u>(6,446)</u>	<u>12,551</u>
Net cash provided by operating activities	<u>890,206</u>	<u>659,109</u>
Cash flows from investing activities:		
Purchase of investments	(753,573)	(654,163)
Proceeds from sale of investments	<u>221,627</u>	<u>131,903</u>
Net cash used by investing activities	<u>(531,946)</u>	<u>(522,260)</u>
Increase in cash	358,260	136,849
Cash and cash equivalents, beginning of year	<u>936,957</u>	<u>800,108</u>
Cash and cash equivalents, end of year	<u>\$ 1,295,217</u>	<u>\$ 936,957</u>
As presented on statements of financial position:		
Cash and cash equivalents	\$ 1,176,877	\$ 584,540
Cash and cash equivalents, restricted	<u>118,340</u>	<u>352,417</u>
Cash and cash equivalents, end of year	<u>\$ 1,295,217</u>	<u>\$ 936,957</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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for board-designated endowments.

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 the donor stipulates that resources be maintained in perpetuity.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

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.

Heart for Lebanon Foundation Notes to Financial Statements

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 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, 2019 and 2018.

Investment income is recorded net of investment expenses. For the years ended December 31, 2019 and 2018, investment expenses were \$25,925 and \$17,434, 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

As of December 31, 2018, the Foundation had a separate segregated investment fund that was for the sole benefit of the Foundation's Chief Executive Officer ("CEO") who lives and is based in Lebanon. This fund's activity was not included on the Foundation's financial statement since the activity belongs to the CEO. This account was closed in 2019 with funds being transferred to the CEO.

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.

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.

Heart for Lebanon Foundation
Notes to Financial Statements

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 April 7, 2020, the date the financial statements were available to be issued.

2. 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:

	<u>2019</u>	<u>2018</u>
Total cash and cash equivalents	\$ 1,176,877	\$ 584,540
Investments	1,665,389	580,881
Investments, board designated	<u>531,717</u>	<u>871,157</u>
Total	<u>\$ 3,373,983</u>	<u>\$ 2,036,578</u>

As part of the Foundation's liquidity management plan, cash in excess of daily requirements is invested in short-term investments.

3. Investments

Investments consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Investments:		
Investments	\$ 1,665,389	\$ 580,881
Investments, board designated	<u>531,717</u>	<u>871,157</u>
	<u>\$ 2,197,106</u>	<u>\$ 1,452,038</u>
Investments:		
Equities	\$ 1,866,333	\$ 663,319
Fixed income	118,366	374,336
Cash	<u>212,407</u>	<u>414,383</u>
	<u>\$ 2,197,106</u>	<u>\$ 1,452,038</u>

Heart for Lebanon Foundation
Notes to Financial Statements

4. Restrictions on Net Assets

Net assets with donor restrictions consist of contributions restricted by donors for particular purposes. The remaining portion of such contributions as of December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Relief & community care	\$ -	\$ 85,458
Children at risk	<u>118,340</u>	<u>266,959</u>
	<u>\$ 118,340</u>	<u>\$ 352,417</u>

5. Restricted Contributions

Total restricted contributions for the year ending December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Relief & community care	\$ 1,075,330	\$ 1,597,385
Children at risk	711,182	1,086,668
Capital campaign	<u>1,362,934</u>	<u>1,112,546</u>
	<u>\$ 3,149,446</u>	<u>\$ 3,796,599</u>

6. Related Party Transactions

Heart for Lebanon, a legal nongovernmental organization in Lebanon, received a total of approximately \$3,388,000 and \$3,336,000 during the years ended December 31, 2019 and 2018, respectively, from the Foundation.

Dr. Camille Melki is the CEO 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 CEO, 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, 2019 and 2018, the Chief Executive Officer received approximately \$160,000 each year in missionary support.

The Foundation had a separate segregated investment fund that is for the sole benefit of the CEO. This fund's activity is not included on the Foundation's financial statement since it is considered to be the CEO's fund. The investment balance of this fund was \$0 and \$205,693 as of December 31, 2019 and 2018, respectively. This account was closed in 2019.

The members of the Foundation's board of directors contributed approximately \$16,000 and \$27,000 in 2019 and 2018, respectively.

The Foundation contracts services for day-to-day operations with a company that is related to a board member. In December 31, 2019 and 2018, the Foundation paid \$150,000 each year to this company to perform the general administration function and the fundraising function. The Foundation also used a company related to a board

Heart for Lebanon Foundation
Notes to Financial Statements

member to facilitate radio advertisements. The Foundation reimbursed the company \$252,302 and \$205,915 during the years ended December 31, 2019 and 2018, respectively, for these advertisements.

The Foundation rents office space from a relative of the Chief Operating Officer. During 2019 and 2018, the Foundation paid \$36,000 and \$33,600 in rental expense.

Minimum future lease payments are estimated as follows:

2020	<u>40,800</u>
Total	<u>\$ 40,800</u>

7. 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.

8. Concentration of Revenue and Support

In 2019, the Foundation received 43% of its support from five donors. In 2018, the Foundation received 37%, of its support from four donors. Revenues from the major sources for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Church	\$ 1,002,581	\$ 506,720
Not-for-profit 1	489,414	371,080
Christian Ministry Organization 1	421,200	548,228
Christian Ministry Organization 2	255,980	251,231
Not-for-profit 2	248,000	-
All other sources	<u>3,228,256</u>	<u>3,463,809</u>
	<u>\$ 5,645,431</u>	<u>\$ 5,141,068</u>

Heart for Lebanon Foundation
Notes to Financial Statements

9. 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 2019 and 2018 were for the following:

	<u>2019</u>	<u>2018</u>
Relief and Community Care	\$ 1,086,560	\$ 1,601,828
Children at Risk	694,340	619,753
Capital Campaign	<u>1,351,704</u>	<u>1,114,347</u>
	<u>\$ 3,132,604</u>	<u>\$ 3,335,928</u>

10. 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, 2019 and 2018 are as follows:

	<u>Assets at Fair Value as of December 31, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 1,984,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,984,699</u>

	<u>Assets at Fair Value as of December 31, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 1,037,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,037,655</u>

The Foundation had \$212,407 and \$414,383 of cash and cash equivalents held in investment accounts as of December 31, 2019 and 2018, respectively, which was not classified as a level as prescribed within the provision.

Heart for Lebanon Foundation
Notes to Financial Statements

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

11. Subsequent Events

Subsequent to the balance sheet date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak may disrupt the Foundation's ability to raise funds to support its mission. The extent of the impact of the outbreak on the Organization's performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Organization's donors, employees and vendors, and governmental, regulatory and private sector responses. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

The Organization carries a significant balance of marketable equity securities. As of the date the financial statements were available to be issued, the economic uncertainty caused by the outbreak has resulted in a severe decline in the value of marketable securities, including many of those held by the Organization.