

AGROS INTERNATIONAL AND AFFILIATE

Consolidated Financial Statements

For the Years Ended June 30, 2015 and 2014

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Independent Auditor's Report

**To the Board of Directors
Agros International and Affiliate
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Agros International and Affiliate (collectively, the Organization) which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets 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 audits 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of functional expenses for Agros International, presented on page 16, is for purposes of additional analysis and is not a required part of the basic 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 audit 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.

Clark Nuber P.S.

Certified Public Accountants
December 16, 2015

AGROS INTERNATIONAL AND AFFILIATE

**Consolidated Statements of Financial Position
June 30, 2015 and 2014**

| | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 1,078,607 | \$ 2,003,644 |
| Prepaid expenses and other assets | 52,217 | 63,844 |
| Microloans receivable from community members, net | 178,003 | 150,781 |
| Pledges and grants receivable, net | 208,712 | 591,179 |
| Investments | 468,576 | 463,969 |
| Notes receivable, net | | 80,889 |
| Land held for village development | 2,147,160 | 1,308,013 |
| Property and equipment, net | <u>131,133</u> | <u>129,229</u> |
| Total Assets | <u>\$ 4,264,408</u> | <u>\$ 4,791,548</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 302,951 | \$ 256,139 |
| Land loan payments | <u>512,831</u> | <u>443,423</u> |
| Total Liabilities | 815,782 | 699,562 |
| Net Assets: | | |
| Unrestricted net assets- | | |
| Undesignated | 435,083 | 331,991 |
| Board-designated for program | 20,000 | 63,855 |
| Board-designated for land purchases | 169,094 | 224,361 |
| Invested in land held for village development and property and equipment | <u>142,719</u> | <u>136,229</u> |
| Total unrestricted net assets | 766,896 | 756,436 |
| Temporarily restricted net assets | 1,989,063 | 2,619,087 |
| Permanently restricted net assets | <u>692,667</u> | <u>716,463</u> |
| Total Net Assets | <u>3,448,626</u> | <u>4,091,986</u> |
| Total Liabilities and Net Assets | <u>\$ 4,264,408</u> | <u>\$ 4,791,548</u> |

See accompanying notes.

AGROS INTERNATIONAL AND AFFILIATE

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2015 Total |
|---|-------------------|---------------------------|---------------------------|---------------------|
| Revenues: | | | | |
| Contributions and grants | \$ 1,059,735 | \$ 1,357,840 | \$ - | \$ 2,417,575 |
| In-kind goods | 23,545 | | | 23,545 |
| Special events, net of related expenses of \$92,333 | 378,061 | 68,956 | | 447,017 |
| Interest income | 17,002 | 28,041 | | 45,043 |
| Other income | 17,300 | | | 17,300 |
| Net assets released from restriction | 2,084,861 | (2,084,861) | | |
| Total Revenues | 3,580,504 | (630,024) | | 2,950,480 |
| Expenses: | | | | |
| Program | 2,321,432 | | | 2,321,432 |
| Administration | 323,911 | | | 323,911 |
| Resource development | 776,313 | | | 776,313 |
| Total Expenses | 3,421,656 | | | 3,421,656 |
| Change in Net Assets Before Losses | 158,848 | (630,024) | | (471,176) |
| Land and loan portfolio adjustments (Note 3) | (148,388) | | (23,796) | (172,184) |
| Change in Net Assets | 10,460 | (630,024) | (23,796) | (643,360) |
| Net assets, beginning of year | 756,436 | 2,619,087 | 716,463 | 4,091,986 |
| Net Assets, End of Year | \$ 766,896 | \$ 1,989,063 | \$ 692,667 | \$ 3,448,626 |

See accompanying notes.

AGROS INTERNATIONAL AND AFFILIATE

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2014 Total |
|---|-------------------|---------------------------|---------------------------|---------------------|
| Revenues: | | | | |
| Contributions and grants | \$ 559,781 | \$ 1,517,779 | \$ - | \$ 2,077,560 |
| In-kind goods | 19,804 | | | 19,804 |
| Special events, net of related expenses of \$78,851 | 262,926 | 81,050 | | 343,976 |
| Interest income | 25,522 | 22,905 | | 48,427 |
| Other income | 40,719 | | | 40,719 |
| Net assets released from restriction | 2,127,291 | (2,127,291) | | |
| Total Revenues | 3,036,043 | (505,557) | | 2,530,486 |
| Expenses: | | | | |
| Program | 2,097,176 | | | 2,097,176 |
| Administration | 395,356 | | | 395,356 |
| Resource development | 914,773 | | | 914,773 |
| Total Expenses | 3,407,305 | | | 3,407,305 |
| Change in Net Assets Before Losses | (371,262) | (505,557) | | (876,819) |
| Land and loan portfolio adjustments (Note 3) | (69,572) | (648,638) | (694,153) | (1,412,363) |
| Change in Net Assets | (440,834) | (1,154,195) | (694,153) | (2,289,182) |
| Net assets, beginning of year | 1,197,270 | 3,773,282 | 1,410,616 | 6,381,168 |
| Net Assets, End of Year | \$ 756,436 | \$ 2,619,087 | \$ 716,463 | \$ 4,091,986 |

See accompanying notes.

AGROS INTERNATIONAL AND AFFILIATE

**Consolidated Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014**

| | <u>2015</u> | <u>2014</u> |
|--|----------------------------|----------------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ (643,360) | \$ (2,289,182) |
| Adjustments to reconcile change in net assets to net cash used in operating activities- | | |
| Land impairment and loan losses | 172,184 | 1,412,363 |
| Gain on disposal of property and equipment | (11,917) | (22,150) |
| Depreciation and amortization | 59,437 | 44,310 |
| Land transfers to villagers | (576) | |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other assets | 11,627 | 49,610 |
| Investments | (4,607) | (4,509) |
| Microloans receivable from community members, net | (27,222) | (74,823) |
| Pledges and grants receivable, net | 382,467 | 120,920 |
| Accounts payable and accrued expenses | 35,339 | 31,792 |
| | <u>(26,628)</u> | <u>(731,669)</u> |
| Net Cash Used in Operating Activities | (26,628) | (731,669) |
| Cash Flows From Investing Activities: | | |
| Net repayment of notes receivable | (107,519) | 41,507 |
| Purchases of property and equipment | (61,341) | (100,316) |
| Proceeds from sale of property and equipment | 11,917 | 22,150 |
| Purchases of land held for village development | (814,527) | |
| Land loan payments received from villagers | 73,061 | 77,954 |
| | <u>(898,409)</u> | <u>41,295</u> |
| Net Cash (Used in) Provided by Investing Activities | (898,409) | 41,295 |
| Net Change in Cash and Cash Equivalents | (925,037) | (690,374) |
| Cash and cash equivalents, beginning of year | <u>2,003,644</u> | <u>2,694,018</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,078,607</u> | <u>\$ 2,003,644</u> |
| Supplemental Cash Flow Information: | | |
| Land held for village development purchases in accounts payable and accrued expenses | \$ 11,473 | \$ - |

See accompanying notes.

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 1 - Nature of the Organization

Agros International (Agros) was formed in October 1984. Its mission is to break the cycle of poverty for the rural poor by helping them acquire land and develop sustainable agriculture and communities. Agros has provided development assistance to 42 Agros villages (projects) in Guatemala, El Salvador, Nicaragua, Honduras and Mexico, helping more than 1,750 families achieve food security, organize self-sustaining communities, develop agricultural businesses, and obtain potable water and other essential needs (unaudited).

Agros is a Washington State nonprofit corporation with headquarters in Seattle, Washington and branch offices in El Salvador, Nicaragua, and Honduras.

Agros works with organizations in Guatemala and Mexico, which are governed by separate boards of directors in those countries. Fundación Agros, operating in Guatemala, is a Guatemalan nonprofit corporation with headquarters in Guatemala City, Guatemala. Agros México A.C. is a Mexican civic association with headquarters in Tuxtla Gutiérrez, Chiapas, Mexico. Funds provided to Fundación Agros and Agros México A.C. are included in the detail on the schedule of functional expenses as a part of program activities. The accompanying consolidated financial statements for the years ended June 30, 2015 and 2014 do not include the accounts of Fundación Agros and Agros México A.C. Effective July 1, 2014, the Organization ended grant support to Fundación Agros.

Land Hope Life, an affiliated organization that is controlled by Agros, was incorporated on June 23, 2010, for the purpose of purchasing and holding land in other countries.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Agros and Land Hope Life, collectively referred to as "the Organization". All inter-organization transactions have been eliminated.

Basis of Presentation - Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they will be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is restricted by donors, in which case they are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as releases between the applicable classes of net assets.

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 2 - Continued

Noemí Fund - In October 2003, the Board of Directors authorized the formation of the Noemí Fund (the Fund), to hold gifts in perpetuity to be used for land and housing loans. These gifts are accounted for as permanently restricted net assets unless other donor restrictions apply. Monies from the Fund are advanced to acquire land and purchase building materials. The Fund holds, as its investment, cash, promissory notes, and land. Losses on investments may be charged to the applicable restricted net asset class.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization at times maintains cash balances that are in excess of Federal Deposit Insurance Corporation insurance limits. Cash and cash equivalents balances in foreign countries as of June 30, 2015 and 2014, totaled \$167,245 and \$26,273, respectively.

Receivables - Accounts, microloans and notes receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Pledges and Grants Receivable - Unconditional promises to give (pledges receivable and grants from foundations) are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Conditional Pledges Receivable - The Organization holds commitments from donors who have agreed to sponsor villages. These commitments will be received over future years as village development progresses. To the extent that individual pledge commitments for a specific time period and amount have been received, they are recorded as pledges receivable. In the absence of a specific promise to give, the Organization considers those commitments to be conditional on future events and recognizes only the current-year portion.

Concentration of Credit Risk - Approximately 20% and 29% of the Organization's contribution revenue was received from one donor for the years ended June 30, 2015 and 2014, respectively. Approximately 26% and 46% of pledges and grants receivable are from two donors at June 30, 2015 and 2014, respectively.

Investments - Investments, consisting of certificates of deposits, are reported at original cost plus accrued interest.

Property, Equipment and Depreciation - All acquisitions of property and equipment in excess of \$1,000 in the U.S. and \$500 outside the U.S. and all expenditures for repairs and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the useful lives of the assets, generally three to seven years for vehicles and furniture and equipment and the life of the lease for leasehold improvements.

Donated Securities and Other Assets - Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation.

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 2 - Continued

Donated Services - Donated services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. There were no donated services recognized for the years ended June 30, 2015 and 2014.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with its programs and administration. These services totaled more than 10,100 and 10,300 hours (unaudited) during the years ended June 30, 2015 and 2014, respectively. Due to applicable accounting guidelines, these were not recognized as contributions in the consolidated financial statements.

Use of Estimates - Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates. Significant estimates used in preparing these consolidated financial statements include those used in recording land held for development at the lower of cost or net realizable value as well as the valuation allowance established against microloans and notes receivable. It is reasonably possible that the significant estimates used will change within the next year.

Income Tax Status - The Internal Revenue Service (IRS) has determined that Agros and Land Hope Life are exempt from U.S. income tax under section 501(c)(3) of the U.S. Internal Revenue Code (IRC). In addition, Agros qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization other than a private foundation under section 509(a)(1).

Foreign Currency Translation - The functional currency of some of the Organization's field offices is the local currency in which the office is located. Assets and liabilities of the offices have been translated into U.S. dollars at year-end exchange rates. Revenues and expenses have been translated at average monthly exchange rates. Any translation adjustments are included in the consolidated statements of activities and changes in net assets.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and in the schedule of functional expenses. Expenses related to more than one function are charged to programs and supporting services on the basis of benefits received by each function. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Resource development expenses are expenses related to raising financial support for current and future activities of the Organization. Certain significant program activities, including the extension of credit for agricultural and other productive activities and purchases of land for new village development, are not recorded as expenses but are shown as increases in the corresponding assets.

Reclassifications - Certain items presented on the consolidated financial statements for the prior year have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the consolidated change in net assets or net asset balances as previously reported.

Subsequent Events - The Organization has evaluated subsequent events through December 16, 2015, the date on which the consolidated financial statements were available to be issued.

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 3 - Valuation of Land, Notes Receivable and Microloans Receivable

During the year ended June 30, 2015 and 2014, the Organization reviewed the valuation of its land held for village development, notes receivable, and microloans receivable. Based on management's programmatic intent, assessed uncollectible amounts, planned restructuring of loans, and other factors, management increased the valuation allowances for these assets by a total of \$172,184 and \$1,412,363 as of June 30, 2015 and 2014, respectively. A corresponding total for land loan portfolio adjustments has been reported in the consolidated statement of activities and changes in net assets for the year ended June 30, 2015 and 2014. Further information about the valuation of microloans and notes receivable is in Note 4 and further information about the valuation of land held for village development is in Note 7.

Note 4 - Microloans and Notes Receivable

Notes for the purchase of land pay interest at varying rates with terms of ten years from the date of the land purchase, with payments commencing 24 months after the date of purchase. The balances of the notes receivable were \$363,647 and \$393,290 at June 30, 2015 and 2014, respectively. Some of the notes are denominated in the local currency and have been translated into U.S. dollars at year-end exchange rates.

In addition, the Organization makes loans to families in Guatemala, El Salvador, Nicaragua, Honduras and Mexico to help build self-sustaining and thriving communities. The loans are funded by a combination of permanently restricted, temporarily restricted, and unrestricted contributions.

Microloans and notes receivable consisted of the following as follows at June 30:

| | <u>2015</u> | <u>2014</u> |
|---|--------------------------|--------------------------|
| Receivables from- | | |
| Organizations (Guatemala and Mexico) | \$ 458,243 | \$ 442,306 |
| Villages (El Salvador, Nicaragua, and Honduras) | <u>378,677</u> | <u>267,592</u> |
| | 836,920 | 709,898 |
| Less allowance for doubtful accounts- | | |
| Beginning balance | (478,228) | (82,628) |
| Provision for loan losses | <u>(180,689)</u> | <u>(395,600)</u> |
| Ending balance | <u>(658,917)</u> | <u>(478,228)</u> |
| | <u><u>\$ 178,003</u></u> | <u><u>\$ 231,670</u></u> |

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 4 - Continued

Microloans and notes receivable are presented on the consolidated statement of financial position as follows at June 30:

| | <u>2015</u> | <u>2014</u> |
|---|--------------------------|--------------------------|
| Microloans receivable from community members, net | \$ 178,003 | \$ 150,781 |
| Notes receivable, net | | <u>80,889</u> |
| | <u>\$ 178,003</u> | <u>\$ 231,670</u> |

The following amounts of microloans were past due at June 30:

| | <u>2015</u> | <u>2014</u> |
|-----------------------|--------------------------|--------------------------|
| 30 to 60 days | \$ 7,417 | \$ 5,110 |
| 61 to 90 days | 11,631 | 6,222 |
| 91 to 120 days | 1,974 | 14,781 |
| Greater than 120 days | <u>135,058</u> | <u>76,667</u> |
| | <u>\$ 156,080</u> | <u>\$ 102,780</u> |

Maturities on the microloans and notes receivable range from six months to ten years. Allowances for doubtful accounts for microloans and notes receivable are established based on management's programmatic intent regarding pursuing collections, prior collection experience, current economic factors, and management's review of individual account balances. Microloans and notes receivable are written off only when they are deemed to be permanently uncollectible and interest continues to accrue until the loan balances are paid in full. Assessed impairment of certain loans is included in the allowance for doubtful accounts.

The Organization is subject to certain business risks that could affect net assets. These risks include a geographic concentration in Nicaragua and Honduras at June 30, 2015. There were geographic concentrations in Nicaragua, Honduras, El Salvador, Guatemala, and Mexico at June 30, 2014.

AGROS INTERNATIONAL AND AFFILIATE

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 5 - Pledges and Grants Receivable

Pledges receivable are discounted at rates ranging from 0.46 percent to 1.48 percent and are due as follows at June 30:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------|--------------------------|--------------------------|
| Less than one year | \$ 191,742 | \$ 411,933 |
| One to five years | 26,870 | 194,846 |
| More than five years | | <u>10,600</u> |
| | 218,612 | 617,379 |
| Less allowance for doubtful pledges | (9,400) | (23,000) |
| Less discount to present value | <u>(500)</u> | <u>(3,200)</u> |
| | <u>\$ 208,712</u> | <u>\$ 591,179</u> |

Note 6 - Property and Equipment

Property and equipment consisted of the following at June 30:

| <u>Asset</u> | <u>Country</u> | <u>2015</u> | <u>2014</u> |
|-------------------------------|----------------|--------------------------|--------------------------|
| Furniture and equipment | United States | \$ 183,519 | \$ 175,492 |
| | Nicaragua | 42,993 | 30,181 |
| | Honduras | 17,285 | 15,463 |
| | El Salvador | 6,505 | 6,505 |
| Vehicles | Nicaragua | 148,895 | 129,875 |
| | Honduras | 36,556 | 64,556 |
| | El Salvador | 26,747 | 26,747 |
| Leasehold improvements | United States | 11,083 | 11,083 |
| | Nicaragua | <u>4,731</u> | |
| | | 478,314 | 459,902 |
| Less accumulated depreciation | | <u>(347,181)</u> | <u>(330,673)</u> |
| | | <u>\$ 131,133</u> | <u>\$ 129,229</u> |

Note 7 - Land Held for Village Development

Land held for village development is stated at the lesser of the purchase and development cost of the land or the net realizable value. Net realizable value is the estimated amount that management anticipates villagers will be paying for the land based on programmatic, economic, and other factors. During the year ended June 30, 2014, it was determined that several villages had uncollectable loan amounts. Therefore, the land's value was reduced and impairment losses were recognized in the consolidated statements of activities and changes in net assets.

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 7 - Continued

The land is held as inventory on the Organization's consolidated statements of financial position until villagers have completed payment for their individual parcels. Payments are recorded as land loan payment liabilities during the payment period, generally seven to ten years. Land loan payments totaled \$512,831 and \$443,423 as of June 30, 2015 and 2014, respectively. At completion of the period, title is transferred to the individual villagers and the cost of the land and accumulated payments are removed from the consolidated statements of financial position.

The parcels of land held in the following countries were as follows at June 30, 2015 and 2014:

| Country | 2015 Carrying Value | 2014 Carrying Value |
|-------------|---------------------------|---------------------------|
| Nicaragua | \$ 1,785,817 | \$ 959,816 |
| Honduras | 184,325 | 187,403 |
| El Salvador | 177,018 | 160,794 |
| | \$ 2,147,160 | \$ 1,308,013 |

Note 8 - Lease Commitments

The Organization signed a lease for office space under a noncancelable lease agreement expiring December 2012 with an optional five year extension. In August 2012, the Organization signed an amendment to this lease beginning November 2012, and expiring December 2017 with an optional five year extension. The future minimum annual rental payments are subject to escalations of the base rent and are included in the commitments schedule below.

The Organization also has leases for office space in the various countries in which it operates. These leases generally have committed terms ranging from three to twelve months.

Future minimum rent payments under all noncancelable operating leases are as follows:

For the Year Ending June 30,

| | |
|------|-------------------|
| 2016 | \$ 114,389 |
| 2017 | 95,859 |
| 2018 | 48,638 |
| | \$ 258,886 |

Lease expense for all operating leases totaled \$134,275 and \$131,223 for the years ended June 30, 2015 and 2014, respectively.

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Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Time restrictions | \$ 9,800 | \$ 64,800 |
| Program restrictions- | | |
| Village development | 655,594 | 1,075,617 |
| Land | 908,509 | 871,979 |
| Agricultural and enterprise loans | 247,295 | 247,295 |
| Administration and resource development | 71,248 | 185,166 |
| Other programs | 96,481 | 173,996 |
| Credit fund administration | 136 | 234 |
| | <u>\$ 1,989,063</u> | <u>\$ 2,619,087</u> |

Note 10 - Permanently Restricted Net Assets

Permanently restricted net assets totaled \$692,667 and \$716,463 as of June 30, 2015 and 2014, respectively. These amounts represent contributions to the Noemí Fund (the Fund) to purchase land and to finance the cost of land and houses for the members of the communities served by the Organization. Ninety percent of each contribution given to the Noemí Fund is held in perpetuity. The remaining ten percent of each contribution is temporarily restricted to pay for direct operating costs and overhead of the Fund. During the year ended June 30, 2015 and 2014, this Fund was reduced by \$23,796 and \$694,153, respectively, to account for a valuation loss reserve on the underlying land and notes receivable.

Permanently restricted net assets are invested in the following assets as of June 30:

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ - | \$ 445,810 |
| Receivables, including microloans | | 4,090 |
| Notes receivable for funds invested in land | | 27,485 |
| Land held for development | 692,667 | 239,078 |
| | <u>\$ 692,667</u> | <u>\$ 716,463</u> |

Note 11 - Functional Expenses

Functional expenses for Agros International alone (not including the affiliated organization, Land Hope Life) are presented in the supplemental schedule accompanying the consolidated financial statements (page 17). On an unconsolidated basis, for the fiscal year ended June 30, 2015, Agros International's total expenses of \$4,419,534 were expended in the following areas: program activities \$3,319,310; resource development \$776,313; and administration \$323,911. Agros International's expenses for the fiscal year ended June 30, 2015 include \$826,000 of grants expense paid to Land Hope Life. On an unconsolidated basis, for the fiscal year ended June 30, 2014, Agros International's total expenses of \$4,518,006 were expended in the following areas: program activities \$3,207,877; resource development \$914,773; and administration \$395,356.

AGROS INTERNATIONAL AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended June 30, 2015 and 2014

Note 12 - Supported Organizations

Fundación Agros is a legally separate Guatemala nonprofit corporation supported by the Organization. Effective July 1, 2014, the Organization ended grant support provided to Fundación Agros. Transactions with this entity consisted of the following for the years ended June 30:

| | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Due (to) from Fundación Agros at June 30- | | |
| Notes receivable, net | \$ - | \$ 31,873 |
| Funds advanced for microloans, net | | 30,545 |
| Program operations, net | | (1,664) |
| Funds paid for- | | |
| Program operations | | 131,350 |

Agros Mexico, AC is a legally separate Mexican nonprofit corporation supported by the Organization. Transactions with this entity consisted of the following for the years ended June 30:

| | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|
| Due (to) from Agros Mexico, AC at June 30- | | |
| Funds advanced for microloans, net | \$ - | \$ 18,471 |
| Program operations, net | (1,535) | (4,153) |
| Funds paid for- | | |
| Program operations | 100,671 | 119,862 |

SUPPLEMENTARY INFORMATION

AGROS INTERNATIONAL

**Schedule of Functional Expenses
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)**

| | Program Expenses | | | | | | | | Administration | Resource Development | 2015 Total | 2014 Total |
|---|-----------------------------------|-------------------|------------------|-------------------|------------------|-------------------|-------------------|---------------------|-------------------|----------------------|---------------------|---------------------|
| | International Program Development | Credit Fund | Guatemala | Nicaragua | El Salvador | Honduras | Mexico | Total Program | | | | |
| Salaries, payroll taxes and benefits | \$ 497,632 | \$ 48,979 | \$ - | \$ 361,132 | \$ 10,628 | \$ 81,373 | \$ 15,143 | \$ 1,014,887 | \$ 227,611 | \$ 475,945 | \$ 1,718,443 | \$ 1,745,062 |
| Project costs and infrastructure | 871,750 | 137 | 29,725 | 212,276 | | 37,955 | 10,361 | 1,162,204 | | | 1,162,204 | 380,236 |
| Service teams | 1,332 | | 6,210 | 52,198 | | 22,692 | | 82,432 | | 157 | 82,589 | 95,597 |
| Travel | 82,280 | 12,376 | 840 | 53,696 | 4,541 | 11,867 | 5,977 | 171,577 | 3,001 | 30,126 | 204,704 | 143,874 |
| Professional services | 122,849 | 9,439 | 7,500 | 82,352 | 37,685 | 13,533 | 46,854 | 320,212 | 16,434 | 93,319 | 429,965 | 479,417 |
| Rent and occupancy | 46,327 | 111 | | 26,837 | 2,451 | 11,413 | 5,040 | 92,179 | 19,721 | 51,928 | 163,828 | 161,245 |
| Vehicle expense and local transportation | 1,679 | 1,640 | | 32,924 | 2,626 | 7,243 | 8,791 | 54,903 | 319 | 2,671 | 57,893 | 67,264 |
| Training, staff development and recruitment | 55,572 | | | 16,157 | | 2,577 | 2,223 | 76,529 | 34,151 | 8,077 | 118,757 | 49,241 |
| Supplies and postage | 10,641 | 1,264 | 85 | 5,384 | 462 | 1,117 | 1,275 | 20,228 | 1,554 | 8,183 | 29,965 | 31,506 |
| Telephone and communications | 26,939 | 723 | | 10,492 | 516 | 3,282 | 1,792 | 43,744 | 3,894 | 25,801 | 73,439 | 77,587 |
| Fees, taxes and licenses | 3,776 | 101 | 95 | 2,599 | 670 | 1,968 | 1,237 | 10,446 | 6,944 | 33,140 | 50,530 | 45,406 |
| Printing and publications | 15,836 | 166 | | 1,148 | 94 | 70 | 411 | 17,725 | 320 | 17,922 | 35,967 | 33,645 |
| Insurance | 7,375 | | | 8,352 | 798 | 1,384 | 583 | 18,492 | 3,320 | 9,586 | 31,398 | 28,788 |
| Equipment rental and maintenance | 4,225 | 99 | | 1,408 | 234 | 1,705 | 454 | 8,125 | 1,550 | 4,229 | 13,904 | 11,273 |
| Interest, loss (gain) on currency and other | 655 | 3,250 | | 1,008 | | 1,144 | 530 | 6,587 | 1,143 | 5,937 | 13,667 | 10,076 |
| Depreciation | 9,988 | | | 28,452 | 75 | 7,681 | | 46,196 | 3,949 | 9,292 | 59,437 | 44,310 |
| Total Expenses | 1,758,856 | 78,285 | 44,455 | 896,415 | 60,780 | 207,004 | 100,671 | 3,146,466 | 323,911 | 776,313 | 4,246,690 | 3,404,527 |
| Provision for uncollectible loans | 694 | 154,843 | | | | | | 155,537 | | | 155,537 | 402,662 |
| Impairment loss on land | | | 26,855 | | (16,224) | | 6,676 | 17,307 | | | 17,307 | 710,817 |
| Total Expenses and Losses | \$ 1,759,550 | \$ 233,128 | \$ 71,310 | \$ 896,415 | \$ 44,556 | \$ 207,004 | \$ 107,347 | \$ 3,319,310 | \$ 323,911 | \$ 776,313 | \$ 4,419,534 | \$ 4,518,006 |

Note: This statement reflects the activities of Agros International only, not consolidated with Land Hope Life. Agros International carries out its program activities both directly and through affiliated organizations. For the purpose of the functional expense presentation above, all activities for which Agros International funds were expended are reported above in their natural classifications.

See independent auditor's report.