

Agros International and Affiliate

Consolidated Financial Statements with
Independent Auditor's Report

Years Ended December 31, 2023 and 2022

Larson Gross 

Agros International and Affiliate

Contents

	Page
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-19

Independent Auditor's Report

To the Board of Directors
Agros International and Affiliate

Opinion

We have audited the accompanying consolidated financial statements of Agros International and Affiliate (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Agros International and Affiliate as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Agros International and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Agros International and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agros International and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Agros International and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Larson Gross PLLC

Bellingham, Washington
November 1, 2024

Agros International and Affiliate

Consolidated Statements of Financial Position

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 2,307,312	\$ 1,961,914
Prepaid expenses and other assets	102,253	80,747
Advances from related parties	761,376	382,454
Accounts receivable	52,030	2,674
Pledges and grants receivable, net	553,545	952,858
Microloans receivable from community members, net	437,482	302,585
Land held for village development, net	1,623,945	1,635,297
Investments	1,103,458	997,879
Right-of-use asset	-	5,271
Property and equipment, net	<u>455,690</u>	<u>246,828</u>
Total assets	<u><u>\$ 7,397,091</u></u>	<u><u>\$ 6,568,507</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 346,697	\$ 316,726
Agency funds payable	126,521	-
Land loan payments	765,712	765,558
Operating lease liability	-	5,282
Notes payable	<u>505,000</u>	<u>23,907</u>
Total liabilities	1,743,930	1,111,473
Net assets		
Without donor restrictions	1,181,981	1,134,033
With donor restrictions	<u>4,471,180</u>	<u>4,323,001</u>
Total net assets	<u>5,653,161</u>	<u>5,457,034</u>
Total liabilities and net assets	<u><u>\$ 7,397,091</u></u>	<u><u>\$ 6,568,507</u></u>

Agros International and Affiliate

Consolidated Statements of Activities

Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contributions and grants	\$ 1,543,785	\$ 1,859,245	\$ 3,403,030	\$ 1,661,175	\$ 3,188,125	\$ 4,849,300
Other income	123,456	-	123,456	105,274	-	105,274
Investment return, net	-	75,795	75,795	-	-	-
Gain on sale of land	42,674	-	42,674	-	-	-
Interest income	36,656	-	36,656	4,503	-	4,503
Gain (loss) on disposal of property and equipment	18,436	-	18,436	(250)	-	(250)
Net assets released from restriction	1,786,861	(1,786,861)	-	1,526,639	(1,526,639)	-
Total revenues	3,551,868	148,179	3,700,047	3,297,341	1,661,486	4,958,827
Expenses						
Program	2,285,011	-	2,285,011	2,490,530	-	2,490,530
Administration	243,405	-	243,405	274,289	-	274,289
Resource development	975,504	-	975,504	784,867	-	784,867
Total expenses	3,503,920	-	3,503,920	3,549,686	-	3,549,686
Changes in net assets	47,948	148,179	196,127	(252,345)	1,661,486	1,409,141
Net assets – beginning of year	1,134,033	4,323,001	5,457,034	1,386,378	2,661,515	4,047,893
Net assets – end of year	\$ 1,181,981	\$ 4,471,180	\$ 5,653,161	\$ 1,134,033	\$ 4,323,001	\$ 5,457,034

The accompanying notes are an integral part of these consolidated financial statements.

Agros International and Affiliate

Consolidated Statement of Functional Expenses

Year Ended December 31, 2023

Program Expenses

	International Program				Total Program	Resource		Total
	Services	Nicaragua	El Salvador	Honduras		Administration	Development	
Salaries, payroll taxes, and benefits	\$ 233,269	\$ 452,778	\$ -	\$ 424	\$ 686,471	\$ 135,372	\$ 514,174	\$ 1,336,017
Grants to Guatemala program	574,809	-	-	-	574,809	-	-	574,809
Professional services	24,207	242,959	-	1,186	268,352	56,583	113,365	438,300
Other	4,129	107,114	-	15,706	126,949	5,654	159,081	291,684
Fees, taxes and licenses	11,238	93,103	-	3,230	107,571	10,423	73,406	191,400
Rent and occupancy	18,319	102,576	-	570	121,465	16,357	45,770	183,592
Project costs and infrastructure	-	130,229	-	-	130,229	-	-	130,229
Travel	21,084	55,985	-	1,529	78,598	7,263	31,024	116,885
Depreciation	3,715	74,359	-	-	78,074	2,434	7,655	88,163
Vehicle expense and local transportation	2,885	60,072	-	437	63,394	-	224	63,618
Insurance	1,381	11,670	-	-	13,051	2,975	7,753	23,779
Telephone and communications	1,277	14,326	-	-	15,603	923	4,230	20,756
Printing and publications	131	80	-	-	211	-	15,826	16,037
Equipment rental and maintenance	-	8,971	-	-	8,971	-	-	8,971
Training, conferences and staff development	312	395	-	-	707	4,784	2,933	8,424
Supplies and postage	449	6,179	-	121	6,749	637	-	7,386
Miscellaneous	-	1,507	-	2,300	3,807	-	63	3,870
Total expenses	\$ 897,205	\$ 1,362,303	\$ -	\$ 25,503	\$ 2,285,011	\$ 243,405	\$ 975,504	\$ 3,503,920

Agros International and Affiliate

Consolidated Statement of Functional Expenses

Year Ended December 31, 2022

	Program Expenses							
	International				Total	Resource		Total
	Program	Nicaragua	El Salvador	Honduras	Program	Administration	Development	
Services								
Salaries, payroll taxes and benefits	\$ 206,837	\$ 359,964	\$ -	\$ 7,243	\$ 574,044	\$ 148,412	\$ 457,357	\$ 1,179,813
Grants to Guatemala program	720,961	-	-	-	720,961	-	-	720,961
Professional services	19,410	356,206	1,800	12,179	389,595	71,574	47,914	509,083
Other	9,270	106,631	-	3,527	119,428	1,286	134,942	255,656
Fees, taxes and licenses	45,930	31,809	-	4,767	82,506	22,309	45,467	150,282
Rent and occupancy	19,646	87,650	-	4	107,300	18,423	25,430	151,153
Project costs and infrastructure	-	262,197	-	155	262,352	-	-	262,352
Travel	23,696	33,441	33	6,540	63,710	79	31,198	94,987
Depreciation	4,312	72,826	-	-	77,138	2,825	7,732	87,695
Vehicle expense and local transportation	61	41,868	-	5,518	47,447	-	195	47,642
Insurance	1,846	9,086	-	461	11,393	2,931	6,108	20,432
Telephone and communications	902	12,859	-	253	14,014	1,484	3,115	18,613
Printing and publications	294	239	-	3	536	417	14,797	15,750
Equipment rental and maintenance	-	9,328	-	69	9,397	-	-	9,397
Training, conferences and staff development	241	1,064	-	-	1,305	4,199	454	5,958
Supplies and postage	154	6,994	-	520	7,668	350	10,158	18,176
Miscellaneous	1,486	-	-	250	1,736	-	-	1,736
Total expenses	\$ 1,055,046	\$ 1,392,162	\$ 1,833	\$ 41,489	\$ 2,490,530	\$ 274,289	\$ 784,867	\$ 3,549,686

Agros International and Affiliate

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Changes in net assets	\$ 196,127	\$ 1,409,141
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Net (appreciation) depreciation in investments	(95,361)	2,121
Forgiveness of Paycheck Protection Program loan	-	(171,165)
Contributions restricted to be held in perpetuity	(250)	(1,000,000)
Gain on sale of land	(42,674)	-
(Gain) loss on disposal of property and equipment	(18,436)	250
Depreciation	88,163	87,695
Noncash lease (income) cost	(11)	11
Change in allowance for credit losses	2	(61,291)
(Increase) decrease in assets		
Prepaid expenses and other assets	(21,506)	(34,836)
Advances from related parties	(378,922)	(382,454)
Accounts receivable	(49,356)	199,267
Pledges and grants receivable, net	399,313	(308,415)
Microloans receivable from community members	(134,899)	157,051
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	29,971	(4,015)
Agency funds payable	126,521	(321,808)
	<u>98,682</u>	<u>(428,448)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Land loan payments received from villagers	54,180	364,314
Purchases of investments	(1,939,396)	(1,000,000)
Sales of investments	2,004,973	-
Reinvested investment interest and dividends	(75,795)	-
Purchases of property and equipment	(297,935)	(40,583)
Proceeds from sale of property and equipment	19,346	-
	<u>(234,627)</u>	<u>(676,269)</u>
Net cash provided used by investing activities		
Cash flows from financing activities		
Principal payments on notes payable	(23,907)	(4,093)
Proceeds from issuance of notes payable	505,000	-
Contributions restricted to be held in perpetuity	250	1,000,000
	<u>481,343</u>	<u>995,907</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	345,398	(108,810)
Cash and cash equivalents – beginning of year	<u>1,961,914</u>	<u>2,070,724</u>
Cash and cash equivalents – end of year	<u>\$ 2,307,312</u>	<u>\$ 1,961,914</u>
Supplemental disclosure of cash flow information		
Noncash investing and financing activities:		
Vehicles purchased with long-term debt	<u>\$ -</u>	<u>\$ 28,000</u>

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Agros International (Agros) was formed in October 1984 with a mission to break the cycle of poverty and create paths to prosperity for farming families in rural Latin America. Agros has provided development assistance to Agros villages (projects) in Guatemala, El Salvador, Nicaragua, Honduras and Mexico, helping families achieve food security, organize self-sustaining communities, develop agricultural businesses and obtain potable water and other essential needs.

Agros is a Washington State nonprofit corporation with headquarters in Seattle, Washington and a branch office in Nicaragua.

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

Principles of consolidation – The accompanying consolidated financial statements present the consolidated financial position and consolidated changes in net assets and cash flows of Agros and Land Hope Life (collectively referred to as “the Organization”). All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

Basis of accounting – The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation – Net assets, revenue, expenses, 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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization are classified as net assets without donor restrictions. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time, including contributions that have been restricted by the donor that stipulate the resources be maintained in perpetuity, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specific or unspecified purposes are classified as net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions (i.e., the donor stipulated the purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. In addition, if a restriction is fulfilled in the same year in which the contribution is received, the Organization reports the support as net assets without donor restrictions.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies – (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 net assets with perpetual donor restrictions 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 – Cash and cash equivalents consists of checking and money market accounts and, for purposes of cash flows, are defined as all highly liquid investments with an initial maturity of three months or less. The Organization maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year.

Cash and cash equivalents balances in foreign countries totaled \$251,348 and \$265,330 as of December 31, 2023 and 2022, respectively.

Receivables – The Financial Accounting Standards Board issued new guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The Organization adopted the new guidance on January 1, 2023, using a modified retrospective approach with no material impact on the Organization's financial statements.

Accounts receivable and microloans receivable are stated net of the allowance for doubtful accounts and credit losses and represent the amount expected to be collected. At each balance sheet date, the Organization recognizes an expected allowance for doubtful accounts and credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. Receivables are evaluated individually when they do not share similar risk characteristics. The allowance estimate is derived from a review of historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions and reasonable and supportable forecasts of future economic conditions. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as customer characteristics have remained constant and there have been no significant changes in factors that influenced the estimate of expected credit losses.

At December 31, 2023 and 2022, no allowance was considered necessary.

Pledges and grants receivable – Unconditional promises to give (pledges receivable and grants from foundations) are recognized as revenue 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 met and the promises become unconditional.

Approximately 100% and 70% of the Organization's pledges and grants receivable were due from six and two entities as of December 31, 2023 and 2022, respectively.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies – (Continued)

Investments – Investments are reported at fair value in the consolidated statements of financial position. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in investment income in the statements of activities. Investment income (including unrealized and realized gains and losses) is reported as increases or decreases in net assets without donor restrictions unless a donor restricts their use.

Property, equipment, and depreciation – All acquisitions of property and equipment in excess of \$150 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.

Leases – The Organization determines if an arrangement contains a lease at inception based on whether it has the right to control the asset during the contract period and other facts and circumstances. The Organization elected not to record right-of-use assets and lease liabilities for leases with an initial term of 12 months or less and recognizes lease expense for these short-term leases on a straight-line basis over the lease term. The Organization has also elected the practical expedient that allows the combination of both lease and non-lease components as a single component and account for it as a lease for all classes of underlying assets.

For leases with a term greater than 12 months, the Organization records a lease liability based on the present value of lease payments over the expected lease term. The Organization calculates the present value of lease payments for all classes of underlying assets using a risk-free discount rate determined using a period comparable with that of the lease term. The Organization records a corresponding right-of-use lease asset based on the lease liability, adjusted for any lease incentives received and any initial direct costs paid to the lessor prior to the lease commencement date.

After the initial recognition, the lease liability is measured as the present value of the unpaid lease payments using the discount rate determined when the lease was initially recognized. The right-of-use asset, unless previously impaired, is measured as the amount of lease liability adjusted for: (a) prepaid or accrued lease payments, (b) the remaining balance of any lease incentives received, (c) unamortized initial direct lease costs, and (d) any current impairment of the right-of-use asset.

Donated securities and other assets – Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

In-kind donations – 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 in-kind donations during the years ended December 31, 2023 and 2022.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with its programs and administration. Due to applicable accounting guidelines, these were not recognized as contributions in the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies – (Continued)

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 statement of activities as other expenses.

Functional expense allocation – Costs of providing programs and activities are summarized by functional category in the accompanying statement of activities and statement of functional expenses. Costs directly identifiable with specific program or support functions are charged to the related programs or supporting services. Certain expenses related to more than one function are allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. A portion of the cost of staff headquartered in the Organization’s Seattle office is allocated to the respective program activities based on estimated time and effort of those staff. 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.

Use of estimates – The preparation of consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 1, 2024, the date the consolidated financial statements were available to be issued.

Note 2 – Liquidity and Availability of Financial Assets

The Organization is substantially supported by individuals and private foundation grantmaking. The Organization's working capital and cash flows have seasonal variations during the year attributable primarily to the timing of special fundraising events and concentration of contributions received near calendar year end. Additionally, the seasonal cash flows is based on agricultural investments and the Central American farming cycle. The Organization’s finance staff and board finance committee maintains a monthly review and forecast of the cash movement through the year. The Organization’s goal is to maintain cash on hand to meet 60 days of normal operating expenses, which is approximately an average of \$590,000.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 – Liquidity and Availability of Financial Assets – (Continued)

The Organization’s financial assets available within one year of the consolidated statement of financial position date for general expenditure were as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 2,307,312	\$ 1,961,914
Investments	1,103,458	997,879
Advances from related parties	761,376	382,454
Microloans receivable from community members, net	437,482	302,585
Pledges and grants receivable, net	553,545	952,858
Accounts receivable	<u>52,030</u>	<u>2,674</u>
Total financial assets	5,215,203	4,600,364
Less amounts not available for general expenditures within one year		
Receivables scheduled to be collected in more than one year	(140,000)	(249,989)
Net assets with donor restrictions	(4,471,180)	(4,323,001)
Add back amounts invested in nonfinancial assets, land available for village development	<u>1,623,945</u>	<u>1,635,297</u>
Financial assets available to meet cash needs within one year for general expenditures	<u>\$ 2,227,968</u>	<u>\$ 1,662,671</u>

Note 3 – The Endowment Fund

The endowment of the Organization consists of donor-restricted funds. As required by Accounting Principles Generally Accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions. Funds are released from restrictions upon appropriation for use and when the Organization incurs expenses that are in accordance with donor restrictions.

Interpretation of Relevant Law

The State of Washington has passed a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Directors of the Organization has interpreted UPMIFA as generally requiring that the amount of the original gift and any required accumulations are not expendable as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) the remaining portion of the donor-restricted endowment fund that has not yet been appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 3 – The Endowment Fund – (Continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) Duration and preservation of the fund
- 2) Purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) Possible effect of inflation and deflation
- 5) Expected total return from investment income and appreciation or depreciation of investments
- 6) Other resources of the Organization
- 7) Investment policies of the Organization

Change in endowment net assets were as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Endowment Fund net assets, beginning of year	\$ 997,879	\$ -
Contributions	250	1,000,000
Net investment return, net of fees	75,795	(2,121)
Endowment Fund net assets, end of year	<u>\$ 1,073,924</u>	<u>\$ 997,879</u>

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the primary investment objective of the Organization is to preserve and protect its assets by earning a total return appropriate to the time horizon, liquidity needs, and risk tolerance. The Organization expects its endowment funds, over time, to provide an average rate of return equal to the prior ten-year historical average rate of return. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve long-term growth of the endowment fund with prudent risk constraints. No disbursements of earnings will be made for five years.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a current policy of evaluating an assumed rate of return and using that rate to determine the appropriate distribution while maintaining the balance. In establishing this policy, the Organization considered the long-term expected return on its endowment and the Board wants the endowment to grow in the future. The Board of Directors may distribute expected yearly gains from the endowment fund, to support annual operations, determined by the Board. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 3 – The Endowment Fund – (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in restricted net assets. As of December 31, 2022, a fund with an original gift value of \$1,000,000, fair value of \$997,879, and deficiency of \$2,121 was reported in net assets with donor restrictions. During 2023, the value of the endowment increased to \$1,073,924, resulting in no deficiencies. The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor stipulations or laws and regulations. The board of directors did not appropriate any expenditures from the underwater endowment fund during the year.

Note 4 – Investments and Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Investments using Level 3 inputs are valued as follows:

The Organization held an interest in the future return on investments held by National Christian Foundation Northwest (the Foundation). Beneficial interests in funds held by others represent resources neither in the possession nor under the control of the Organization, but held and administered by an outside fiscal agent. The Endowment Fund was established in April 2022 to encourage its members and supporters to make legacy gifts to the Endowment Fund and to create a stable and growing source of revenue to support the Organization's mission. In accordance with generally accepted accounting principles, the Organization presents its donor-designated investment balance as net assets with donor restrictions.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4 – Investments and Fair Value Measurements – (Continued)

The Foundation may make distributions from a portion of the Endowment Fund’s earnings and/or principal as determined by the Foundation distribution policy. The Organization’s advisor may recommend distributions from the Endowment Fund, and it is the intent of the Organization maintain patron contributions to the Endowment Fund in perpetuity. During the year ended December 31, 2023, to maximize investment return, the Organization transferred a total of \$1,000,659 from Level 3 investments to Level 1 investments.

The following tables set forth the Organization’s investments at fair value as of December 31:

	2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
The Endowment Fund	\$ 1,073,924	\$ -	\$ -	\$ 1,073,924
Investments	29,534	-	-	29,534
	<u>\$ 1,103,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,103,458</u>
	2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
The Endowment Fund	\$ -	\$ -	\$ 997,879	\$ 997,879
Investments	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 997,879</u>	<u>\$ 997,879</u>

The composition of investments is as follows at December 31:

	<u>2023</u>	<u>2022</u>
Exchange traded funds	\$ 648,274	\$ -
Equity securities	319,534	-
Mutual funds	128,161	-
Cash and cash equivalents	7,127	-
Other	362	-
Beneficial interests	-	997,879
	<u>\$ 1,103,458</u>	<u>\$ 997,879</u>

Note 5 – Microloans

The Organization makes loans to families in various foreign countries to help build self-sustaining and thriving communities. The loans are funded by a combination of contributions with and without donor restrictions.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5 – Microloans – (Continued)

Microloans consisted of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Microloans	\$ 438,165	\$ 303,266
Less allowance for credit losses		
Beginning balance	(681)	(61,972)
Provision for loan losses	(2)	-
Write-off of loan balances against the allowance	-	61,291
Ending balance	<u>(683)</u>	<u>(681)</u>
Microloans receivable from community members, net	<u>\$ 437,482</u>	<u>\$ 302,585</u>

Microloans were past due at December 31, as follows:

	<u>2023</u>	<u>2022</u>
30 to 60 days	\$ 92,510	\$ 2,464
61 to 90 days	3,130	3,196
91 to 120 days	-	1,063
Greater than 120 days	120,024	121,241
	<u>\$ 215,664</u>	<u>\$ 127,964</u>

Maturities on the microloans range from six months to ten years. Allowances for credit losses for microloans 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 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 or written off. Management of the Organization has determined that all loans in the portfolio are in good standing. 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 Central America as of December 31, 2023 and 2022.

Note 6 – Pledges and Grants Receivable

Pledges and grants receivable are due as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 433,599	\$ 722,923
One to five years	140,000	249,989
	573,599	972,912
Less allowance for doubtful pledges and grants receivable	(20,054)	(20,054)
	<u>\$ 553,545</u>	<u>\$ 952,858</u>

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 6 – Pledges and Grants Receivable – (Continued)

Management has determined that a discount of long-term receivables would be immaterial as of December 31, 2023 and 2021.

Note 7 – Property and Equipment

Property and equipment consists of the following as of December 31:

Asset	Country	2023	2022
Furniture and equipment	United States	\$ 249,462	\$ 249,913
	Nicaragua	595,457	300,231
	Honduras	10,464	10,431
Vehicles	Nicaragua	63,646	64,336
	Honduras	-	23,082
Leasehold improvements	United States	11,083	11,083
Less accumulated depreciation		(474,422)	(412,248)
		\$ 455,690	\$ 246,828

Depreciation expense totaled \$88,162 and \$87,695 during the years ended December 31, 2023 and 2022, respectively.

Note 8 – 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.

The land held for development is capitalized on the Organization's consolidated statement 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. The cumulative land loan payments received totaled \$765,712 and \$765,558 as of December 31, 2023 and 2022, respectively. Payments received from villagers are nonrefundable and any payments received in excess of the village asset basis is recorded as a gain; during the year ended December 31, 2023, a gain of \$42,764 was recorded. During the year ended December 31, 2022, no gain was recorded.

At completion of the payment period, title is transferred to the individual villagers and the cost of the land and cumulative payments are removed from the consolidated statement of financial position at the amount received. During the years ended December 31, 2023 and 2022, \$11,352 and \$89,332, respectively, of cost of land and cumulative payments previously recognized as a liability were removed from the consolidated statements of financial position due to title transfers. During the years ended December 31, 2023 and 2022, there were no acquisitions of land held for village development. All land held for development is held outside of the United States.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 9 – Leases

The Organization had a lease for office space under a noncancelable lease agreement expiring January 2023. In October 2019 the Organization assigned this lease to an unrelated third party and subleased a portion of the space. The new sublease required monthly rental payments and expires in January 2023. In January 2023 the Organization signed a new contract to lease the space until August 2023 that was renewed for an additional six months expiring February 2024.

The Organization signed a short-term lease agreement in March 2024 for office space in Seattle, Washington. The lease requires monthly payments of \$800.

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

A summary of lease costs and related information follows for the periods ended December 31:

	<u>2023</u>	<u>2022</u>
Lease cost		
Short-term and variable lease costs	\$ 111,350	\$ 28,554
Operating lease cost	5,282	68,547
Total	<u>\$ 116,632</u>	<u>\$ 97,101</u>
Other information		
Weighted average remaining lease term		0.1 years
Weighted average discount rate		0.40%

Note 10 – Notes Payable

During 2023, the Organization signed 15 promissory note agreements with related party donors, totaling \$505,000. The notes have interest only payments at 3% annually beginning June 2024 with a balloon payments due in June 2026 and are unsecured.

In February 2021, the Organization received a \$171,165 loan from the Federal Payroll Protection Program. This loan accrued interest at 1%, was guaranteed by the Small Business Administration, and was forgivable if the Organization's use of funds met the criteria for such forgiveness. Monthly accrued interest payments were scheduled to begin January 2022. The loan was fully forgiven by the Small Business Administration in April 2022 and is included in contributions and grants revenue on the accompanying consolidated statement of activities for the year ended December 31, 2022.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 11 – Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Program restrictions	\$ 2,323,053	\$ 2,357,501
Endowment Fund	1,073,924	997,879
Noemí Fund	612,392	612,392
Time restrictions	461,811	355,229
	<u>\$ 4,471,180</u>	<u>\$ 4,323,001</u>

The Organization’s Noemí Fund (the Fund) totaled \$612,392 as of December 31, 2023 and 2022. These amounts represent contributions to the Fund to purchase land and to finance the cost of land and houses for the members of the communities served by the Organization. According to donor stipulations, ninety percent of each contribution given to the Noemí Fund is held in perpetuity. The remaining ten percent of each contribution is expendable and donor-restricted to pay for direct operating costs and overhead of the Fund.

Note 12 – Related Party Transactions

The Organization works with an organization in Guatemala, which is governed by a separate board of directors in that country. Fundación Agros, operating in Guatemala, is a Guatemalan nonprofit corporation with headquarters in Guatemala City, Guatemala. Certain individuals serve on the boards of directors of both Fundación Agros and Agros and accordingly Fundación Agros is considered a related party. The accompanying consolidated financial statements for the years ended December 31, 2023 and 2022, do not include the accounts of Fundación Agros. Grants provided to Fundación Agros are included in the detail on the consolidated statement of functional expenses as a part of program activities and totaled \$574,809 and \$720,961 for the years ended December 31, 2023 and 2022, respectively. Advances to Fundación Agros are included in the consolidated statements of financial position and totaled \$761,376 and \$382,454 as of December 31, 2023 and 2022, respectively.

The Organization held notes payable of \$505,000 to related party board members. See further discussion in Note 10.