

COPTIC ORPHANS

AUDITED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017



COPTIC ORPHANS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Coptic Orphans Support Association
Fairfax, VA

We have audited the accompanying financial statements of the Coptic Orphans Support Association (a nonprofit organization), doing business as Coptic Orphans, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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.

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 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 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 Coptic Orphans' 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 Coptic Orphans' 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 Coptic Orphans as of December 31, 2018 and 2017, 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.

UHY LLP

Columbia, Maryland
May 9, 2019

COPTIC ORPHANS
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,827,350	\$ 6,950,507
Contributions receivable	651,531	459,480
Prepaid expenses	52,266	127,169
	<u>10,531,147</u>	<u>7,537,156</u>
Total current assets		
	<u>1,392,172</u>	<u>1,410,598</u>
PROPERTY AND EQUIPMENT, NET		
	<u>13,654,454</u>	<u>13,668,718</u>
OTHER ASSETS		
Investments at fair value	86,709	131,053
Deposits and other assets		
	<u>13,741,163</u>	<u>13,799,771</u>
Total other assets		
	<u>\$ 25,664,482</u>	<u>\$ 22,747,525</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 543,523	\$ 222,377
Accrued expenses	196,945	155,799
	<u>740,468</u>	<u>378,176</u>
Total current liabilities		
NON-CURRENT LIABILITIES		
Deferred lease benefit	86,342	86,342
	<u>826,810</u>	<u>464,518</u>
Total liabilities		
NET ASSETS		
Without donor restrictions	23,981,443	21,593,242
With donor restrictions	856,229	689,765
	<u>24,837,672</u>	<u>22,283,007</u>
Total net assets		
	<u>\$ 25,664,482</u>	<u>\$ 22,747,525</u>

See notes to the financial statements.

COPTIC ORPHANS
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Contributions	\$ 11,192,666	\$ 636,468	\$ 11,829,134	\$ 10,316,740	\$ 611,002	\$ 10,927,742
Investment income, net	(404,474)	191	(404,283)	1,249,289	-	1,249,289
Other revenue	1,397	-	1,397	3,996	-	3,996
Net assets released from restrictions	470,195	(470,195)	-	435,896	(435,896)	-
Total revenue and support	11,259,784	166,464	11,426,248	12,005,921	175,106	12,181,027
EXPENSES						
Program services:						
Not Alone	6,221,587	-	6,221,587	5,822,168	-	5,822,168
Community development and other	370,131	-	370,131	66,940	-	66,940
Total program services	6,591,718	-	6,591,718	5,889,108	-	5,889,108
Supporting services:						
Management and general	667,231	-	667,231	694,671	-	694,671
Fundraising	1,155,514	-	1,155,514	869,057	-	869,057
Total supporting services	1,822,745	-	1,822,745	1,563,728	-	1,563,728
Total expenses	8,414,463	-	8,414,463	7,452,836	-	7,452,836
Change In Net Assets From Operations	2,845,321	166,464	3,011,785	4,553,085	175,106	4,728,191
Other Non-Operating Income (Loss)						
Net gain (loss) on foreign currency valuation	(457,120)	-	(457,120)	353,730	-	353,730
Change in Net Assets	2,388,201	166,464	2,554,665	4,906,815	175,106	5,081,921
Net Assets, Beginning	21,593,242	689,765	22,283,007	16,686,427	514,659	17,201,086
Net Assets, Ending	\$ 23,981,443	\$ 856,229	\$ 24,837,672	\$ 21,593,242	\$ 689,765	\$ 22,283,007

See notes to the financial statements.

COPTIC ORPHANS
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018

	Not Alone	Community Development and Other	Total Program Services	Management and General	Fundraising	Total
Field operations:						
Participant receipts	\$ 3,556,433	\$ 289,884	\$ 3,846,317	\$ -	\$ -	\$ 3,846,317
Donor-directed gift	1,047,023	-	1,047,023	-	-	1,047,023
Housing and medical	97,549	-	97,549	-	-	97,549
Scholarships and education	38,055	11,239	49,294	-	-	49,294
Total field operations	4,739,060	301,123	5,040,183	-	-	5,040,183
Personnel costs:						
Salaries and compensation	1,048,609	49,814	1,098,423	452,624	589,027	2,140,074
Employee benefits	28,829	1,369	30,198	20,430	26,587	77,215
Payroll taxes	60,652	2,881	63,533	32,120	41,712	137,365
Total personnel costs	1,138,090	54,064	1,192,154	505,174	657,326	2,354,654
Communication and public education	15,423	135	15,558	10,806	17,081	43,445
Credit card fees	-	-	-	-	127,629	127,629
Depreciation	9,080	-	9,080	1,972	2,486	13,538
Events	1,150	-	1,150	-	144,038	145,188
Meetings, conferences, and training	54,877	5,204	60,081	6,682	210	66,973
Occupancy	69,972	-	69,972	46,169	60,083	176,224
Office operations	91,749	5,956	97,705	39,183	66,977	203,865
Professional services	71,009	-	71,009	49,284	66,691	186,984
Travel	31,177	3,649	34,826	7,961	12,993	55,780
	<u>\$ 6,221,587</u>	<u>\$ 370,131</u>	<u>\$ 6,591,718</u>	<u>\$ 667,231</u>	<u>\$ 1,155,514</u>	<u>\$ 8,414,463</u>

COPTIC ORPHANS
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2017

	Not Alone	Community Development and Other	Total Program Services	Management and General	Fundraising	Total
Field operations:						
Participant receipts	\$ 3,332,168	\$ -	\$ 3,332,168	\$ -	\$ -	\$ 3,332,168
Donor-directed gift	1,005,931	-	1,005,931	-	-	1,005,931
Housing and medical	87,542	-	87,542	-	-	87,542
Scholarships and education	23,957	28,565	52,522	-	-	52,522
Total field operations	4,449,598	28,565	4,478,163	-	-	4,478,163
Personnel costs:						
Salaries and compensation	972,161	35,862	1,008,023	458,223	492,987	1,959,233
Employee benefits	29,140	-	29,140	18,518	19,923	67,581
Payroll taxes	40,152	-	40,152	31,303	33,679	105,134
Total personnel costs	1,041,453	35,862	1,077,315	508,044	546,589	2,131,948
Communication and public education	13,089	-	13,089	2,686	2,890	18,665
Credit card fees	-	-	-	-	121,682	121,682
Depreciation	10,281	-	10,281	2,498	2,688	15,467
Events	6,104	-	6,104	4,791	5,154	16,049
Meetings, conferences, and training	27,130	-	27,130	1,574	1,694	30,398
Occupancy	69,034	-	69,034	48,789	52,490	170,313
Office operations	95,112	681	95,793	54,775	58,930	209,498
Professional services	85,365	-	85,365	61,377	66,034	212,776
Travel	25,002	1,832	26,834	10,137	10,906	47,877
	<u>\$ 5,822,168</u>	<u>\$ 66,940</u>	<u>\$ 5,889,108</u>	<u>\$ 694,671</u>	<u>\$ 869,057</u>	<u>\$ 7,452,836</u>

See notes to the financial statements.

COPTIC ORPHANS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 2,554,665	\$ 5,081,921
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	13,538	15,467
Non-cash contributions received	(129,994)	-
Realized and unrealized gains on investments	844,171	(869,237)
Decrease (increase) in assets:		
Contributions receivable	(192,051)	(145,490)
Prepaid expenses	74,903	(91,337)
Deposits and other assets	44,344	2,071
Increase (decrease) in liabilities:		
Accounts payable	321,146	44,182
Accrued expenses	41,146	22,741
Deferred lease benefit	-	(1,506)
	<u>3,571,868</u>	<u>4,058,812</u>
Cash Flows Used in Investing Activities		
Proceeds from sales of investments	236,241	280,464
Purchases of investments and reinvested earnings	(936,154)	(3,463,206)
Purchases of property and equipment	(8,893)	(1,164,459)
	<u>(708,806)</u>	<u>(4,347,201)</u>
Effect of Changes in Exchange Rate	<u>13,781</u>	<u>(2,559)</u>
Increase (Decrease) in Cash and Cash Equivalents	2,876,843	(290,948)
Cash and Cash Equivalents, Beginning	<u>6,950,507</u>	<u>7,241,455</u>
Cash and Cash Equivalents, Ending	<u>\$ 9,827,350</u>	<u>\$ 6,950,507</u>

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 1 – NATURE OF OPERATIONS

The Coptic Orphans Support Association, doing business as Coptic Orphans, is a non-profit organization incorporated in 1992 under the laws of the Commonwealth of Virginia. Coptic Orphans is headquartered in Virginia, with field offices in Egypt, Australia, Canada, and the United Kingdom. Coptic Orphans improves the lives of orphans and other vulnerable children in Egypt by providing basic needs, education, and mentoring so that they may realize their potential to become productive members of society. In addition, Coptic Orphans raises public awareness about poverty in Egypt and promotes cultural understanding. Coptic Orphans' vision is to see that every vulnerable child of Egypt confidently faces the future with a renewed sense of hope and a life enriched with education, health, and equality.

A summary of Coptic Orphans' programs and initiatives:

Not Alone

Not Alone - The Not Alone program is the flagship program of Coptic Orphans, which serves over 9,000 orphans and their families in 54 dioceses in Egypt. Each child in Not Alone, through a mentoring and nurturing relationship with one of Coptic Orphans' more than 400 church-based volunteer "Reps," receives the protection, support, and confidence that was lost when their fathers died or abandoned them. The emphasis of Not Alone is not on charity, but rather on the transformation of children and those around them. Program participants gain the resources to break the cycle of poverty, as well as the courage to become change-makers in their own communities. Coptic Orphans addresses both immediate and long-term needs so that Not Alone children can deal successfully with the academic, social, and emotional challenges they face.

Because Coptic Orphans focuses on education as the primary tool to empower children to become self-sufficient, well-adjusted adults, Not Alone prioritizes giving the children literacy and other skills that help them achieve high marks in school. The children are encouraged to develop their God-given talents so that they can overcome their own circumstances and transform future generations.

Each of the volunteer representatives of Coptic Orphans, ("Reps"), is nominated by their Bishop in the Coptic Orthodox Church. The Reps work with fatherless families in some of the most impoverished communities in Egypt, from the slums of Cairo to remote rural villages. Each Rep has relationships with 15-25 children, and serves each by:

- Visiting the child on a regular basis in his or her home to assess and provide for basic needs and address underlying problems rooted in the home life of the child.
- Connecting the child and his or her mother and siblings to assistance in areas such as academic tutoring and mentoring for special talents or needs.
- Educating and advocating for families to access civil rights such as birth certificates, government provided widows' pensions, land rights, and government identifications.
- Gathering children, their mothers, and their peers in specialized workshops that build skills in literacy, leadership, computer training, household finance, relationships, cultural appreciation, job readiness, and income-generation, as well as covering critical topics in effective parenting, disease prevention, and female genital mutilation.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 1 – NATURE OF OPERATIONS (Continued)

B'edaya Initiative - B'edaya, an Arabic phrase meaning "with my own hands," is the name of Coptic Orphans' microfinance initiative. B'edaya demonstrates what widowed mothers can accomplish if they have access to credit. B'edaya funds these women's income-generating projects to give them the opportunity to raise their fatherless children with pride and dignity. B'edaya coaches mothers of *Not Alone* participants in how to start their businesses. Mothers can use the profits to improve their family's quality of life.

Future Leaders - Future Leaders is a scholarship program that enables disadvantaged, yet high performing, students to attend one of the higher-tier and fee-based public universities.

Community Development and Other Projects

Valuable Girl Project - The Valuable Girl Project (the Project) aims to promote the academic retention, education, and literacy tutoring of girls and young women in high-poverty areas of Egypt. To achieve these goals, the Project supports young women in their efforts to stay in school and gain dignity at home, in the classroom, and in the community. The Project's eight sites around Egypt use a model of one-on-one mentorship. Through it, young women in secondary schools, the "Big Sisters," become role models for girls in primary schools, the "Little Sisters." Local coordinators based in partner organizations oversee these mentorship programs.

The Project serves young women ages 7-22 regardless of whether they are Christian or Muslim. The Big Sister-Little Sister relationships formed through the Project offer a bridge of understanding among community members whose paths might otherwise never cross. In this way, Coptic Orphans aims to do more than simply stand with disadvantaged girls as they attempt to break the cycle of poverty. Through the Project, Coptic Orphans boosts young women's life chances - but just as importantly, it increases the overall level of tolerance and understanding in Egyptian society.

Serve to Learn - For over a decade, Coptic Orphans has run the Serve to Learn program (the Program) for several weeks each summer. Through the Program, teams of international volunteers have the chance to change children's lives and connect with the "real" Egypt, whose true pulse can only be felt far from the country's crowded tourist attractions. Participants teach children basic English skills at Coptic dioceses in areas ranging from urban centers to remote villages along the Nile. Nearly 200 volunteers have served over the years, teaching over 5,300 young Egyptians. The Program participants are hosted by the local diocese, which keeps an eye on their safety and provides food, housing, and support. Coptic Orphans recruits and trains the volunteers, who come from Canada, Australia, Europe, Asia, and the United States.

Bishop Samuel Fund - The Bishop Samuel Education Fund (the Fund) was created under the name of Bishop Samuel who was one of the leaders of the Sunday School movement that revitalized the Coptic Orthodox Church. The Fund supports youth who achieve the highest scores in their high schools by giving them the extra boost they need to succeed in their higher education. The Fund provides support to program participants who have finished general high school and who are qualified to enroll in higher tier universities, but may struggle with financial challenges due to the above average tuition fees charged by certain programs in Egyptian government universities.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Supporting services include the following functional categories:

Management and General - Activities include preservation and program oversight, business management, general record-keeping, budgeting, and related administrative activities.

Fundraising Activities and Events - Coptic Orphans solicits contributions from individuals, foundations, and governments. Coptic Orphans also hosts special fund-raising events, including the bi-annual Gala. Fundraising activities also include development and management of various activities involved with soliciting contributions.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), whereby revenue is recognized when earned and expenses are recognized when incurred.

Measure of Operations

Coptic Orphans has presented the statement of activities based on an intermediate measure of operations. The change in net assets from operations includes all revenue, support and expenses that are an integral part of Coptic Orphans' programs and supporting activities and includes the net assets released from restrictions to support operating activities. The measure of operations excludes the net gain (loss) on foreign currency valuation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Coptic Orphans considers unrestricted checking, money market, savings, cash on hand, and highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Money market funds held in professionally managed investment accounts are reported with investments.

Grants and Contributions Receivable

Grant and contributions receivable consists of unconditional promises to give and are recorded at the earlier of the date received or the date of receipt of a donor's non-contingent promise or pledge. Unconditional promises to give that are expected to be collected in one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The discount will be recognized as contribution revenue in future fiscal years as the discount is amortized over the duration of the contributions. Based on management's evaluation of the collectability of receivables, all grants and contributions receivable are expected to be collected during the following year and there is no allowance for doubtful accounts for the years ended December 31, 2018 and 2017, respectively.

Property and Equipment

Property and equipment, which includes land, apartment, building, equipment, furniture and fixtures, and vehicles purchased with a cost of \$1,000 or more and with a useful life of greater than one year are capitalized and recorded at acquisition cost. Depreciation for apartment, building, equipment, furniture and fixtures, and vehicles is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. Upon the sale or other disposition of property, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the change in net assets. Expenditures for ordinary maintenance and repair items are charged to operations as incurred.

Investments

Coptic Orphans reports investments at fair value using quoted market prices when available. Donated securities are recorded at fair value on the date the securities are received. Interest, dividends, realized and unrealized gains and losses are recorded as revenue when earned. Investment income is reported net of investment fees in the statements of activities.

Fair Value Measurements

Coptic Orphans complies with the accounting standard on accounting for fair value measurements. This standard defines fair value and establishes 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 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy under this topic are described below:

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Coptic Orphans invests in money market and mutual funds, which are exposed to various risks such as market and credit fluctuations. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Money Market Funds - Money market funds are funds held as short term investments that are carried at cost, which approximates fair value.

Mutual Funds, Stocks, and Exchange Traded Products – Equity and fixed income mutual funds, stocks, and exchange traded products are valued at the closing price reported in the active market in which the individual securities are traded. When observable price quotations are not available, fair value is determined based on the present value of the stream of cash flows it is expected to generate. Such securities are classified as Level 1 in the valuation hierarchy.

The carrying amounts for cash and cash equivalents, prepaid expenses, receivables, accounts payable, accrued liabilities, and deferred lease benefit approximate fair market value because of the short maturity of these instruments.

Deferred Lease Benefit

The total rent commitment is recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes on the straight-line basis is recorded as a deferred lease benefit liability on the statements of financial position.

Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of contributions with donor-imposed restrictions. Accordingly, net assets of Coptic Orphans and changes therein are classified and reported as follows:

Net assets without donor restriction - Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

Net assets with donor restrictions - Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Coptic Orphans reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated asset.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting Coptic Orphans to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

See Note 6 for more information on the composition of net assets with donor restrictions.

Revenue Recognition

Coptic Orphans recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues without donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. There were no conditional promises to give for the years ended December 31, 2018 and 2017.

Coptic Orphans reports gifts of goods and securities as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations as to how long those long-lived assets must be maintained, Coptic Orphans reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

In-Kind Goods and Services

Contributions of donated services that enhance a non-financial asset or contributed services that are considered specialized and can be estimated, and would have been purchased if not donated, are measured at their fair values as of the date of the donation. During the years ended December 31, 2018 and 2017, the value of all contributed services meeting the requirements for recognition was not considered material, and therefore has not been recorded in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time and effort except for direct costs associated with specific programs, which are recorded as expenses for the program benefited.

Reclassifications

Certain prior year balances have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Transactions in Currency Other than the U.S. Dollar

The U.S. Dollar is the reporting currency for Coptic Orphans. Coptic Orphans has operations in countries other than the United States of America that are translated to Coptic Orphans' reporting currency. Transaction gains or losses are reflected in program services expenses in the statements of activities. Gains or losses upon translation of field office activities to U.S. Dollar reporting are reflected as non-operating adjustments to the change in net assets, as reported on the statements of activities

Income Taxes

Coptic Orphans is exempt from federal and state income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is reflected in the accompanying financial statements since Coptic Orphans had no unrelated business income for the years ended December 31, 2018 and 2017.

The income tax positions taken by Coptic Orphans for any years open under the various statutes of limitations are that Coptic Orphans continues to be exempt from income taxes and that Coptic Orphans has properly reported unrelated business income that is subject to income taxes. Coptic Orphans believes that there are no tax positions taken or expected to be taken that would significantly increase unrecognized tax benefits within 12 months of the reporting date. None of Coptic Orphans' income tax returns are currently under examination.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. Coptic Orphans has adopted this ASU as of and for the year ended December 31, 2018.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for Coptic Orphans until annual periods beginning after December 15, 2018. Early adoption is permitted subject to certain limitations. The amendments to this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Coptic Orphans is currently evaluating the effect the provisions of this ASU will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, a new accounting pronouncement for leases. This guidance significantly changes the accounting for a lessee. Under previous guidance, the lessee did not have to record an operating lease on the statements of financial position. Under the new guidance, a lessee must record both a liability for the lease payments and an asset for the right to use the leased property during the lease term. The new accounting pronouncement also adds comprehensive qualitative and quantitative disclosures for lease arrangements. The disclosure requirements include information about management's significant judgments in its accounting for a leasing arrangement. Adoption of this accounting standard is required for the year ended December 31, 2020, although early adoption is permitted, and is expected to result in additions to Coptic Orphans' assets and liabilities for the equipment and office space leases on the statements of financial position and additional descriptions to the lease disclosures in the notes to the financial statements.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENT

The following are the major categories of assets measured at fair value on a recurring basis during the years ended December 31, 2018 and 2017. All investments are considered Level 1 (using quoted prices in active markets for identical assets):

	<u>2018</u>	<u>2017</u>
Investments:		
Money market funds	\$ 50,374	\$ 1,007,705
Mutual Funds:		
Fixed income	5,810,525	5,840,001
Equity	7,361,293	6,821,012
Stocks	47,857	-
Exchange-traded products	<u>384,405</u>	<u>-</u>
Total investments	<u>\$ 13,654,454</u>	<u>\$ 13,668,718</u>

Net investment income is comprised of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 452,172	\$ 381,302
Realized gains	859	6,308
Unrealized gains and (losses)	<u>(845,030)</u>	<u>862,929</u>
	(391,999)	1,250,539
Less investment fees	<u>(12,284)</u>	<u>(1,250)</u>
Net investment income	<u>\$ (404,283)</u>	<u>\$ 1,249,289</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Apartment, Egypt	\$ 62,000	\$ 62,000
Building, Egypt	111,725	111,725
Equipment	39,183	44,168
Furniture & fixtures	75,855	63,401
Vehicles	<u>38,610</u>	<u>38,883</u>
Total depreciable assets	327,373	320,177
Less accumulated depreciation	<u>(278,237)</u>	<u>(266,504)</u>
	49,136	53,673
Land, Egypt	<u>1,343,036</u>	<u>1,356,925</u>
Net value of property and equipment	<u>\$ 1,392,172</u>	<u>\$ 1,410,598</u>

Depreciation expense totaled \$13,538 and \$15,467 for the years ended December 31, 2018 and 2017, respectively.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Coptic Orphans’ net assets with donor restrictions consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Temporarily restricted:		
Donor directed gifts for program participants	\$ 565,579	\$ 642,049
Bishop Samuel fund	195,470	47,716
Taunt Awatef endowment earnings	191	-
Permanently restricted:		
Taunt Awatef endowment	<u>94,989</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 856,229</u>	<u>\$ 689,765</u>

NOTE 6 – ENDOWMENTS

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The statement of investment policies and objectives governs the investment management of Coptic Orphans' Endowment Funds ("the Endowment Fund"). With respect to the Endowment Fund, all investment earnings and realized and unrealized gains and losses are returned to the corpus after transfer of investment earnings to operations in accordance with the spending policy.

In accordance with UPMIFA, Coptic Orphans considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- The duration and preservation of the fund;
- The purpose of Coptic Orphans and the endowment funds with donor restrictions;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of Coptic Orphans.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 6 – ENDOWMENTS (Continued)

The following represents the availability of the endowment funds as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Taunt Awatef endowment fund	<u>\$ -</u>	<u>\$ 191</u>	<u>\$ 94,989</u>	<u>\$ 95,180</u>

Changes in the donor-restricted endowment net assets for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of the year	\$ -	\$ -
Contributions	94,989	-
Interest and dividends	83	-
Net appreciation in fair value	108	-
Income distributions for spending	<u>-</u>	<u>-</u>
Endowment net assets, end of the year	<u>\$ 95,180</u>	<u>\$ -</u>

Standard of Investments

The objectives of the Taunt Awatef endowment is to support the continued education in combination with the contributions to Coptic Orphans and to preserve the purchasing power of the principal. The Endowment Fund’s investments will be determined in conjunction with the review of Coptic Orphans’ financial circumstances. This review is undertaken periodically and the primary investment objective is updated accordingly. The current primary investment objective of the Endowment Fund is to attain an average annual real total return, net of investment management fees, of at least 5% over the long-term (running five-year periods) to obtain the highest yield possible in the investment accounts without putting the endowment principal at risk.

Spending Policy and Accumulation of Income and Principal

The Board shall recommend the expenditure of income and/or principal from the endowment or the accumulation of such income. The Board shall, as necessary, establish and revise standards for expenditures or accumulation. No expenditures from the income or principal of the endowment shall be made for any purpose (1) which is inconsistent with the purposes of Coptic Orphans and the principle and policies established by it, (2) which, if made with respect to any special fund or other restricted contribution or transfer, is in conflict or fails to comply with the express conditions, limitations, or restrictions subject to which the contribution or transfer was made, received, and accepted, or (3) which will or may adversely affect or prejudice the tax-exempt status of Coptic Orphans or the tax deductibility of any contribution to Coptic Orphans.

COPTIC ORPHANS
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NOTE 6 – ENDOWMENTS (Continued)

It is the policy of Coptic Orphans to transfer to operations no more than 5% of the Endowment Fund's value based on a three-year moving average of the Fund's beginning market value. Withdrawals from the Endowment Fund's investment income to Coptic Orphans are to be made on a monthly basis in accordance with the spending policy established.

NOTE 7 – RETIREMENT PLAN

In accordance with foreign compensation requirements, Coptic Orphans maintains retirement plans for employees located in Australia and Canada. Employer contributions totaled \$18,490 and \$20,027 for the years ended December 31, 2018 and 2017, respectively, which is reported in employee benefits in the statements of functional expenses.

In addition, Coptic Orphans maintains individual custodial accounts, in accordance with Internal Revenue Code Section 403(b)(7) for the benefit of the employees located in the United States. No employer contributions were made to these accounts for the years ended December 31, 2018 and 2017, respectively.

NOTE 8 – LEASE COMMITMENTS

Coptic Orphans has non-cancelable leases for office space in the United States, Canada, and Australia, and has a month-to-month lease in Egypt and the United Kingdom.

The amended lease agreement for office space located in Fairfax, Virginia expires on May 31, 2024. The lease provides for minimum rental payments and additional charges for a proportionate share of the building's real estate tax and operating expenses. The lease is subject to an annual 2.75% escalation clause. The lease agreement included a nine month rent abatement starting June 1, 2014. Coptic Orphans paid a security deposit of \$9,531 in accordance with the terms of the agreement.

The lease agreement for office space in Canada expires on April 30, 2023. The lease provides for minimum monthly rent payments of \$1,700 plus the Canadian CPI rate increases and taxes.

The amended lease agreement for office space in Australia expires on February 28, 2022. The lease specifies a monthly rent of \$2,083 plus taxes, operating expenses, and annual CPI rate increases.

Future minimum lease payments for the years ended December 31 are summarized as follows:

2019	\$ 163,304
2020	167,731
2021	172,279
2022	154,563
2023	140,082
2024	<u>55,592</u>
Total	<u>\$ 853,551</u>

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 – LEASE COMMITMENTS (Continued)

Occupancy expenses, including all taxes, utilities, and operating expenses, for the years ended December 31, 2018 and 2017 totaled \$176,224 and \$170,313, respectively.

For the years ended December 31, 2018 and 2017, the month-to-month lease payments for the Egypt field operations was paid to the Coptic Orphans’ Executive Director. Rent expense totaled \$7,934 and \$5,566, respectively, and was included in occupancy expense reported in the statements of functional expenses.

NOTE 9 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Coptic Orphans' financial assets available for general operations during the year ended December 31, 2019 are as follows:

Cash and cash equivalents	\$ 9,827,350
Contributions receivable	119,999
Investments	<u>13,654,454</u>
Total financial assets available within one year	<u>23,601,803</u>
Less, amounts unavailable for general operations within one year, due to:	
Restricted for donor directed gifts for program participants	(761,049)
Restricted by donors for the Taunt Awatef Endowment	<u>(95,180)</u>
Total unavailable due to donor restrictions	<u>(856,229)</u>
Total financial assets available to management for general operations within one year	<u>\$ 22,745,574</u>

Coptic Orphans maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

COPTIC ORPHANS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 10 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Coptic Orphans to significant concentrations of credit risk consist of cash and investments. Such investments are exposed to various risks such as market and credit fluctuation. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements. Coptic Orphans maintains the cash and investment accounts with financial institutions for U.S. operating activity that from time to time may exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). Coptic Orphans has not experienced any credit losses on its cash and investments to date held for U.S. operating activity, as it relates to FDIC and SIPC insurance limits. Coptic Orphans assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Coptic Orphans also maintains significant assets in the countries in which it operates. These assets are generally comprised of cash and cash equivalents that are used for programs. At December 31, 2018, cash and cash equivalents totaling approximately \$6.2 million was held by banks in foreign countries. Cash balances that are held in the denominations of the foreign country are subject to valuation adjustments based on exchange rates in effect at any given time. Transfers of funds back to the United States of America may be restricted due to local market conditions or the laws governing such transactions in the country where the assets are maintained. Coptic Orphans limits their risk by only using foreign banks that are either government sponsored banks or commercially insured and has not experienced any losses.

As of December 31, 2018 and 2017, Coptic Orphans' investment in the Vanguard Total Stock Market Index Fund Admiral Shares was 23% and 26% of total assets, and the Vanguard GNMA Fund Admiral Shares was 20% and 24% of total assets, respectively. The Board of Directors has established an investment policy and guidelines that cover asset allocations and performance objectives.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 9, 2019, which is the date the financial statements are available to be issued.