

HAGAR USA, INC.
FINANCIAL STATEMENTS
December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hagar USA, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of Hagar USA, Inc., which comprise the statements of financial position as of December 31, 2014 and 2013, 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hagar USA, Inc. as of December 31, 2014 and 2013, 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.

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Uncertainty Regarding Going Concern

The accompanying financial statements have been prepared assuming that Hagar USA, Inc. will continue as a going concern. As discussed in Note 5 to the financial statements, Hagar USA, Inc. has suffered a significant decrease in working capital and has a significant amount of restricted net assets, which raise substantial doubt about its ability to continue as a going concern at December 31, 2014. Management's plans regarding those matters also are described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
September 1, 2015

HAGAR USA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash	\$ 60,703	\$ 286,823
Accounts receivable	323	5,479
Unconditional promises to give	-	55,000
Security deposit	-	580
Software development - net	52,092	50,240
Total assets	\$ 113,118	\$ 398,122
LIABILITIES		
Accounts payable	\$ 33,317	\$ 32,257
Grants payable	1,677	21,644
Program transfer payable	65,373	56,370
Software development payable	7,153	36,455
Accrued payroll and other expenses	-	3,975
Total liabilities	107,520	150,701
NET ASSETS		
Unrestricted	(134,618)	8,213
Temporarily restricted	140,216	239,208
Total net assets	5,598	247,421
Total liabilities and net assets	\$ 113,118	\$ 398,122

See accompanying notes.

HAGAR USA, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 300,317	\$ 372,898
Interest income	15	171
	<u>300,332</u>	<u>373,069</u>
EXPENSES		
Program services	952,638	997,025
Management and general	251,416	206,000
Fundraising	180,270	231,263
	<u>1,384,324</u>	<u>1,434,288</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of purpose restrictions	941,161	1,009,191
	<u>941,161</u>	<u>1,009,191</u>
Change in unrestricted net assets	(142,831)	(52,028)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	842,169	1,033,971
Net assets released from restrictions		
Satisfaction of purpose restrictions	(941,161)	(1,009,191)
	<u>(98,992)</u>	<u>24,780</u>
Change in temporarily restricted net assets	(98,992)	24,780
Change in net assets	(241,823)	(27,248)
Net assets - beginning of year	<u>247,421</u>	<u>274,669</u>
Net assets - end of year	<u>\$ 5,598</u>	<u>\$ 247,421</u>

See accompanying notes.

HAGAR USA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended December 31, 2014 and 2013

	Program Services	Management and General	Fundraising	2014 Total
Program transfers	\$ 950,864	\$ -	\$ -	\$ 950,864
Personnel	-	1,072	3,215	4,287
Conferences and meetings	-	626	35	661
Professional services	-	190,831	105,597	296,428
Supplies	-	31,511	-	31,511
Travel	1,774	1,468	4,403	7,645
Printing	-	-	27,259	27,259
Postage and shipping	-	754	3,555	4,309
Occupancy	-	526	-	526
Advertising	-	-	31,091	31,091
Depreciation	-	13,023	-	13,023
Other expenses	-	11,605	5,115	16,720
Total expenses	\$ 952,638	\$ 251,416	\$ 180,270	\$ 1,384,324
	Program Services	Management and General	Fundraising	2013 Total
Program transfers	\$ 948,839	\$ -	\$ -	\$ 948,839
Personnel	36,282	94,965	42,791	174,038
Conferences and meetings	-	4,927	13,979	18,906
Professional services	-	68,071	94,721	162,792
Supplies	-	18,297	244	18,541
Equipment	-	136	-	136
Travel	9,294	2,422	7,269	18,985
Printing	-	-	5,418	5,418
Postage and shipping	-	448	15,381	15,829
Occupancy	2,610	1,580	1,740	5,930
Advertising	-	-	46,986	46,986
Other expenses	-	15,154	2,734	17,888
Total expenses	\$ 997,025	\$ 206,000	\$ 231,263	\$ 1,434,288

See accompanying notes.

HAGAR USA, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (241,823)	\$ (27,248)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	13,023	-
(Increase) decrease in assets		
Accounts receivable	5,156	(5,479)
Unconditional promises to give	55,000	55,000
Security deposit	580	-
Increase (decrease) in liabilities		
Accounts payable	1,060	8,872
Grants payable	(19,967)	21,644
Program transfer payable	9,003	33,324
Accrued payroll and other expenses	(3,975)	(8,913)
Net cash flows from operating activities	(181,943)	77,200
CASH FLOWS FROM INVESTING ACTIVITIES		
Software development purchases	(14,875)	(13,785)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on software development payable	(29,302)	-
Net change in cash	(226,120)	63,415
Cash - beginning of year	286,823	223,408
Cash - end of year	\$ 60,703	\$ 286,823
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing transactions		
Software acquired with software development payable	\$ -	\$ 36,455

See accompanying notes.

HAGAR USA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Hagar USA, Inc. is a support office for the work of Hagar International, which is an internationally recognized Christian human rights organization with 20 years of expertise providing protection and recovery to women and children who have been victims of severe abuse.

Hagar's programs are based in Cambodia (1994), Afghanistan (2008), Vietnam (2009) and Myanmar (2014), with support offices located in Singapore (1998), the United States (2005), Australia (2006), New Zealand (2009), the United Kingdom (2011) and Hong Kong (2012).

Hagar International is committed to the recovery and empowerment of women and children who are victims of human rights abuses, particularly human trafficking, sexual exploitation, and domestic violence. Its mission is to provide whatever it takes, for as long as it takes, to restore broken lives.

To accomplish this, Hagar provides long-term, holistic recovery services – including counseling, residential care, schooling, job skills training and supported work, individualized for each client – to address the complex needs of more than 1,200 women and children each year who have been victims of domestic violence, human trafficking and other forms of human rights abuses.

Hagar USA receives its funding for Hagar's work from sources that include individuals, churches, corporations, foundations and government grants. The following summary of significant accounting policies is presented to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Hagar USA is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by Hagar USA in perpetuity.

Contributions

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Accounts Receivable

Hagar USA considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is presented. If amounts become uncollectible, they will be charged to operations when that determination is made.

HAGAR USA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Software Development

Software development is carried at cost and depreciated using the straight-line method over the useful lives of the assets.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocation

The costs of Hagar USA's programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The following describes those activities:

Program Services

The amounts sent to Hagar Cambodia were for unrestricted program support as well as specific projects and programs such as the Women, Girls' and Boys' Recovery Shelters, the Community Learning Center and the Transitional Care Program. The amounts sent to Hagar Afghanistan were for unrestricted program support as well as specific projects and programs such as Hagar's Transitional Care Center and both coalition-building and educating on human trafficking issues. The amounts sent to Hagar Vietnam were for unrestricted program support as well as specific projects and programs such as personal development workshops, art therapy, and case management services for the long-term support of formerly-abused or trafficked women and children.

Management and General

The expenses necessary to manage the financial reporting and budgetary responsibilities of Hagar USA as well as manage employees.

Fundraising

Includes the travel and other costs associated with proposal writing, direct appeal efforts, and communication with prospective funding sources.

HAGAR USA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Status

Hagar USA is a nonprofit public charity under Internal Revenue Code Section 501(c)(3) and is therefore not subject to federal and state income or franchise taxes. Hagar USA's federal exempt organization returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed. With few exceptions, Hagar USA is no longer subject to such examinations for tax years before 2011.

Date of Management's Review

Management has evaluated subsequent events through September 1, 2015, the date which the financial statements were available to be issued.

NOTE 2 – NET ASSETS

Temporarily restricted net assets at December 31, 2014 and 2013 are available for the following purposes:

	2014	2013
Afghanistan General	\$ 23,332	\$ 7,986
Cambodia General	9,025	1,544
Cambodia Boys Program	-	800
Cambodia Health Clinic	-	500
Community Learning Center	252	44,180
Counseling Psychosocial Care	4,800	30,000
Educational scholarships	-	8,412
General recovery shelter	-	199
Girls recovery shelter	-	14,690
Hong Kong	1,050	250
Myanmar	98,000	123,000
Nuturing Christian Commitment	336	763
Transitional Care	-	306
U.S. Victim Services	2,414	2,414
Vietnam	648	-
Volunteer Services	-	3,744
Women's Recovery Shelter	-	61
Other	359	359
	\$ 140,216	\$ 239,208

HAGAR USA, INC.
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December 31, 2014 and 2013

NOTE 3 – OPERATING LEASES

Hagar USA entered into an agreement to lease office space effective December 1, 2010. The lease was \$580 per month for three years and ended on November 30, 2013 when it was terminated. Lease expense was \$5,800 for 2013.

NOTE 4 – TRANSACTIONS WITH AFFILIATES

During 2013, Hagar USA, in conjunction with Hagar International, began implementation of new software programs to be used in operations. Hagar International invoiced Hagar USA for its share of the expenses associated with the purchase and implementation of the software, which has been capitalized as a depreciable asset. At December 31, 2014 and 2013, Hagar USA owed Hagar International \$7,153 and \$36,455 related to this purchase.

Hagar USA is affiliated with Hagar International and remits a portion of contributions collected annually. Total amounts paid to Hagar International were \$102,824 and \$154,515 for 2014 and 2013 included in program transfers in the statements of functional expenses.

Amounts payable to Hagar International were \$72,526 and \$92,825 at December 31, 2014 and 2013.

NOTE 5 – GOING CONCERN

As indicated in the financial statements, Hagar USA, Inc. has suffered a significant decrease in working capital and also has a significant amount of restricted net assets. These factors create an uncertainty about Hagar USA, Inc.'s ability to continue as a going concern.

Management has developed a plan to reduce its liabilities through forgiveness of payables to affiliated organizations and satisfaction of purpose restrictions related to temporarily restricted net assets. The acceptance of this plan by the Hagar International Board on August 29, 2015 positively impacts the ability of the organization to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the organization is unable to continue as a going concern.