

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
MARION, NORTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

EQUIP, INC
DBA EQUIP, INTERNATIONAL
MARION, NORTH CAROLINA

CONTENTS

| | Page |
|------------------------------------|------|
| Independent Auditor's Report | 1 |
| Financial Statements: | |
| Statement s of Financial Position | 2 |
| Statement s of Activities | 3-4 |
| Statements of Cash Flows | 5 |
| Statement s of Functional Expenses | 6-7 |
| Notes to Financial Statements | 8-15 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Equip, Inc. dba Equip, International
Marion, North Carolina

I have audited the accompanying financial statements of Equip, Inc. dba Equip, International (a non-profit organization) which comprise the statement of financial position as of December 31, 2016 and 2015, 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Equip, Inc. dba Equip, International as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Arden, North Carolina
June 13, 2017

EQUIP, INC.
DBA EQUIP INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

| | 2016 | 2015 |
|---|---------------------|---------------------|
| <u>CURRENT ASSETS</u> | | |
| Cash and cash equivalents | \$ 893,794 | \$ 863,368 |
| Certificates of deposit | 150,294 | |
| Receivable from Equip-Canada | 41,400 | 56,950 |
| Sales tax receivable | 967 | 895 |
| Inventory - medical manuals | | 700 |
| Total Current Assets | 1,086,455 | 921,913 |
| <u>PROPERTY AND EQUIPMENT</u> | | |
| Land | 89,443 | 89,443 |
| Buildings | 454,008 | 454,008 |
| Furnitures and fixtures | 70,321 | 54,831 |
| Computers | 3,233 | 2,145 |
| Vehicles | 32,169 | 32,169 |
| | 649,174 | 632,596 |
| Accumulated depreciation | (140,183) | (118,865) |
| Total Property and Equipment, net | 508,991 | 513,731 |
| <u>INTANGIBLE ASSETS</u> | | |
| Oil and gas lease - net of amortization | 1,455 | 2,153 |
| TOTAL ASSETS | \$ 1,596,901 | \$ 1,437,797 |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 13,189 | \$ 9,555 |
| Deferred revenue - tuition | 5,940 | 23,700 |
| Total Current Liabilities | 19,129 | 33,255 |
| <u>NET ASSETS</u> | | |
| Unrestricted: | | |
| Undesignated | 386,275 | 309,398 |
| Investment in property and equipment | 508,991 | 513,731 |
| Total unrestricted | 895,266 | 823,129 |
| Temporarily restricted | 682,506 | 581,413 |
| Total Net Assets | 1,577,772 | 1,404,542 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,596,901 | \$ 1,437,797 |

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

EQUIP, INC.
DBA EQUIP INTERNATIONAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|--------------------------|-----------------------------------|----------------------------|
| REVENUE AND SUPPORT: | | | |
| Contributions | \$ 234,437 | \$ 1,354,341 | \$ 1,588,778 |
| Tuition and deposits | 140,538 | | 140,538 |
| Book sales | 3,483 | | 3,483 |
| Rental income | 14,400 | | 14,400 |
| Interest income | 5,640 | | 5,640 |
| Net assets released from restrictions | <u>1,253,248</u> | <u>(1,253,248)</u> | <u>0</u> |
| Total revenue and support | <u>1,651,746</u> | <u>101,093</u> | <u>1,752,839</u> |
| EXPENSES: | | | |
| Program services | 1,065,774 | | 1,065,774 |
| Management and general | 507,188 | | 507,188 |
| Fundraising | <u>6,647</u> | | <u>6,647</u> |
| Total expenses | <u>1,579,609</u> | | <u>1,579,609</u> |
| Increase (decrease) in net assets | 72,137 | 101,093 | 173,230 |
| Net assets at beginning of year | <u>823,129</u> | <u>581,413</u> | <u>1,404,542</u> |
| Net assets at end of year | <u><u>\$ 895,266</u></u> | <u><u>\$ 682,506</u></u> | <u><u>\$ 1,577,772</u></u> |

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

EQUIP, INC.
DBA EQUIP INTERNATIONAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|---------------------|
| REVENUE AND SUPPORT: | | | |
| Contributions | \$ 244,942 | \$ 1,379,949 | \$ 1,624,891 |
| Tuition and deposits | 143,885 | | 143,885 |
| Book sales | 3,062 | | 3,062 |
| Interest income | 2,317 | | 2,317 |
| Net assets released from restrictions | <u>1,478,513</u> | <u>(1,478,513)</u> | <u>0</u> |
| Total revenue and support | <u>1,872,719</u> | <u>(98,564)</u> | <u>1,774,155</u> |
| EXPENSES: | | | |
| Program services | 1,281,711 | | 1,281,711 |
| Management and general | 489,343 | | 489,343 |
| Fundraising | <u>7,032</u> | | <u>7,032</u> |
| Total expenses | <u>1,778,086</u> | | <u>1,778,086</u> |
| Increase (decrease) in net assets | 94,633 | (98,564) | (3,931) |
| Net assets at beginning of year | <u>728,496</u> | <u>679,977</u> | <u>1,408,473</u> |
| Net assets at end of year | <u>\$ 823,129</u> | <u>\$ 581,413</u> | <u>\$ 1,404,542</u> |

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

EQUIP, INC.
DBA EQUIP INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|-------------------|-------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Increase (decrease) in net assets | \$ 173,230 | \$ (3,931) |
| Adjustments to reconcile net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,016 | 21,350 |
| (Increase) decrease in assets: | | |
| Receivable from Equip - Canada | 15,550 | (18,027) |
| Sales tax receivable | (72) | (17) |
| Inventory | 700 | 1,400 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 3,634 | 1,955 |
| Deferred revenue | (17,760) | 18,440 |
| | <u>197,298</u> | <u>21,170</u> |
| <u>CASH FLOWS FROM INVESTMENT ACTIVITIES</u> | | |
| Investment in certificates of deposit | (150,294) | |
| Purchase of property and equipment | (16,578) | (2,145) |
| | <u>(166,872)</u> | <u>(2,145)</u> |
| Net cash provided by (used for) investing activities | | |
| Net increase (decrease) in cash and cash equivalents | 30,426 | 19,025 |
| Cash and cash equivalents, beginning of year | 863,368 | 844,343 |
| Cash and cash equivalents, end of year | <u>\$ 893,794</u> | <u>\$ 863,368</u> |

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

EQUIP, INC.
DBA EQUIP INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------------|--------------------|---------------------|
| Wages and missionary support | \$ 574,580 | \$ 333,167 | \$ 6,175 | \$ 913,922 |
| Payroll taxes | 39,035 | 21,726 | 472 | 61,233 |
| Health care benefits | 51,920 | 11,441 | | 63,361 |
| Other health care costs | 13,152 | | | 13,152 |
| Travel | 53,339 | 12,789 | | 66,128 |
| Housing and set up | 5,079 | 1,559 | | 6,638 |
| Food costs | 51,777 | 3,871 | | 55,648 |
| Medicine | 3,054 | | | 3,054 |
| Utilities | 5,358 | 16,078 | | 21,436 |
| Textbook expense | 4,781 | 231 | | 5,012 |
| Training Nationals/Scholarship | 7,932 | | | 7,932 |
| Training | 34,210 | | | 34,210 |
| Training/Honorarium | 40,408 | | | 40,408 |
| Benevolence | 1,614 | | | 1,614 |
| Office supplies | 4,380 | 3,510 | | 7,890 |
| Postage and shipping | 2,005 | 12,780 | | 14,785 |
| Computer/software | 2,376 | 6,334 | | 8,710 |
| Printing and artwork | 1,043 | 4,167 | | 5,210 |
| Promotion | 6,712 | 7,523 | | 14,235 |
| Equipment and building purchases | 31 | 2,054 | | 2,085 |
| Equipment and building rent | 8,893 | 2,161 | | 11,054 |
| Equipment and building maintenance | 2,221 | 10,293 | | 12,514 |
| Building supplies | 8,887 | | | 8,887 |
| Insurance | | 20,723 | | 20,723 |
| Vehicle expense | 5,790 | 1,862 | | 7,652 |
| Conferences | 7,610 | 5,978 | | 13,588 |
| Professional services | | 7,200 | | 7,200 |
| Payroll professional services | 7 | 3,098 | | 3,105 |
| Professional services- software support | 2,658 | 6,614 | | 9,272 |
| Legal expenses | 680 | 1,994 | | 2,674 |
| Bank charges | 1,785 | 2,084 | | 3,869 |
| Licenses and permits | 1,475 | 250 | | 1,725 |
| Dues and registrations | 3,310 | 2,239 | | 5,549 |
| Other expense - field | 90,537 | | | 90,537 |
| Other expense - homeland | | 1,723 | | 1,723 |
| Other Missionary field expense | 10,201 | 657 | | 10,858 |
| Total expenses before depreciation | <u>1,046,840</u> | <u>504,106</u> | <u>6,647</u> | <u>1,557,593</u> |
| Depreciation and amortization | <u>18,934</u> | <u>3,082</u> | | <u>22,016</u> |
| Total functional expenses | <u>\$ 1,065,774</u> | <u>\$ 507,188</u> | <u>\$ 6,647</u> | <u>\$ 1,579,609</u> |

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

EQUIP, INC.
DBA EQUIP INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Wages and missionary support | \$ 640,893 | \$ 284,900 | \$ 6,479 | \$ 932,272 |
| Payroll taxes | 44,718 | 19,018 | 496 | 64,232 |
| Health care benefits | 56,393 | 45,994 | | 102,387 |
| Other health care costs | 27,372 | 10,312 | | 37,684 |
| Travel | 92,505 | 8,849 | | 101,354 |
| Housing and set up | 6,821 | 1,232 | | 8,053 |
| Food costs | 51,623 | 2,487 | | 54,110 |
| Medicine | 2,590 | | | 2,590 |
| Utilities | 4,214 | 17,224 | | 21,438 |
| Textbook expense | 4,946 | (87) | | 4,859 |
| Training Nationals/Scholarship | 6,890 | | | 6,890 |
| Training | 27,474 | 220 | | 27,694 |
| Training/Honorarium | 17,405 | | | 17,405 |
| Benevolence | 958 | | | 958 |
| Office supplies | 4,173 | 2,713 | 7 | 6,893 |
| Postage and shipping | 7,933 | 8,137 | 39 | 16,109 |
| Computer/software | 3,703 | 3,589 | | 7,292 |
| Printing and artwork | 6,126 | 864 | 11 | 7,001 |
| Promotion | 1,495 | 6,511 | | 8,006 |
| Equipment and building purchases | 1,189 | 763 | | 1,952 |
| Equipment and building rent | 4,373 | 2,786 | | 7,159 |
| Equipment and building maintenance | 10,052 | 10,144 | | 20,196 |
| Building supplies | 54,241 | 555 | | 54,796 |
| Insurance | 79 | 20,015 | | 20,094 |
| Vehicle expense | 13,278 | 3,518 | | 16,796 |
| Conferences | 7,355 | 3,895 | | 11,250 |
| Professional services | 3,066 | 16,701 | | 19,767 |
| Payroll professional services | 1,054 | 2,660 | | 3,714 |
| Legal expenses | 4,370 | 2,684 | | 7,054 |
| Bank charges | 1,808 | 4,081 | | 5,889 |
| Licenses and permits | 105 | 500 | | 605 |
| Dues and registrations | 4,626 | 2,174 | | 6,800 |
| Other expense - field | 148,338 | | | 148,338 |
| Other expense - homeland | | 660 | | 660 |
| Life insurance | | 1,757 | | 1,757 |
| Other | 1,184 | 1,498 | | 2,682 |
| Total expenses before depreciation | <u>1,263,350</u> | <u>486,354</u> | <u>7,032</u> | <u>1,756,736</u> |
| Depreciation and amortization | <u>18,361</u> | <u>2,989</u> | | <u>21,350</u> |
| Total functional expenses | <u>\$ 1,281,711</u> | <u>\$ 489,343</u> | <u>\$ 7,032</u> | <u>\$ 1,778,086</u> |

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

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Ministry Overview

Equip, Inc dba Equip, International “Organization” is a non-profit, non-denominational Christian ministry headquartered in Marion, North Carolina. The Organization embraces an understanding of the Scriptures which clearly recognizes that the response of the believer to human need is an integral part of the Gospel. The love of Christ in us and through us must be demonstrated as well as heard as we bear witness.

Their mission, therefore, is to prepare, send and support evangelical missionaries to assist the church around the world to be:

- Responsive to the poor
- Sensitive to the Holy Spirit
- Focused on personal evangelism
- Practically engaged in strengthening the Body of Christ

Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of six months or less.

Financial Statement Presentation

Information regarding the Organization's financial position and activities is presented according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes of net assets are defined as follows:

Unrestricted Net Assets: Unrestricted net assets represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

Temporarily Restricted Net Assets: Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are released to unrestricted net assets as their time and purpose requirements are met.

Permanently Restricted Net Assets: Permanently restricted net assets represent resources that must be maintained permanently. Like temporarily restricted net assets, permanent restrictions may be imposed only by the donor. However, permanently restricted net assets generally do not become reclassified, since, by definition, their restrictions never expire. The income may be unrestricted or may also be restricted according to donor's wishes.

Income Tax Status

The Organization is exempt from federal income tax under Section 501 (c) 3 of the Internal Revenue Code and is classified as a public charity under Section 509 (a) (2) of the Code and therefore has made no provision for federal income taxes in the accompanying financial statements. There was no unrelated business income for the year ended December 31, 2016 and 2015.

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Non-Cash Contributions and Donated Services

Donated property, marketable securities, and other noncash donations are recorded as contributions at their estimated market value at the date of donation. Unpaid volunteers have made contributions of their time and services in assisting the Organization in its daily operations. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Recognition of Donor Restrictions

Support restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted and permanently restricted net assets are released to unrestricted net assets.

Fixed Assets and Depreciation

Acquisitions of equipment and improvements are stated at cost except for donated equipment, which is stated at fair market value at date of receipt. It is the Organization's policy to capitalize expenditures or donations of these items with values or costs in excess of \$1,000. Items of lesser amounts are expensed. Depreciation is computed annually using the straight-line method over the assets' estimated useful lives. Maintenance and repairs are charged to operating expense as incurred. Cost of renewals and betterments, which materially extend the useful lives of the assets or increase their productivity, are capitalized. Depreciation expense for the years ended December 31, 2016 and 2015 was \$ 21,318 and \$ 21,350, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization does not conduct activities that include fundraising appeals combined with program and support activities.

Advertising

Advertising or promotion costs are expensed as incurred. Promotion expense was \$ 14,235 and \$ 8,006 for the years ended December 31, 2016 and 2015, respectively.

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. Management's assessment of accounts receivable at December 31, 2016 and 2015 determined that all accounts receivable were considered collectible. Accordingly, there was no provision for bad debt expense or related adjustment to the valuation allowance account for the year ended December 31, 2016 and 2015.

NOTE B – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) for balances up to \$ 250,000. At certain times, the Organization's bank balances may exceed the FDIC limit. The Organization has not experienced any losses in those accounts.

NOTE C – RELATED PARTY TRANSACTIONS

Joint Venture

The Organization participates in a joint venture through a Joint Ministry Agreement with Equipping Christian Workers Society (Equip-Canada), based in Victoria, British Columbia. Both organizations share the same purpose. Beginning in 2015, the President of the Organization was also the General Director for Equip-Canada. The Organization provides administrative services on behalf of Equip-Canada during the year. The type of services and related consideration were provided as follows:

For the year ending December 31, 2016:

| | |
|------------------------------------|--|
| Salaries and related payroll taxes | \$ 16,576 (C\$ 21,848 in Canadian Dollars) |
| Travel, office and promotion | \$ 1,044 (C\$ 1,383 in Canadian Dollars) |

At December 31, 2016, Equip-Canada owed the Organization \$ 41,400 (C\$ 55,587 in Canadian Dollars).

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE C – RELATED PARTY TRANSACTIONS (CONTINUED)

Joint Venture (Continued)

For the year ending December 31, 2015:

| | |
|------------------------------------|--|
| Salaries and related payroll taxes | \$ 14,379 (C\$ 18,482 in Canadian Dollars) |
| Travel, office and promotion | \$ 3,649 (C\$ 4,569 in Canadian Dollars) |

At December 31, 2015, Equip-Canada owed the Organization \$ 56,950 (C\$ 78,818 in Canadian Dollars).

Board Member Contributions

Contributions from the Organization's board of directors totaled \$ 15,675 and \$ 16,405 for the years ended December 31, 2016 and 2015, respectively.

NOTE D – DEFERRED REVENUE

Deferred revenues result from current year collections of tuition pertaining to training courses offered by the Organization in the following year. The revenues collected for the following year's courses by December 31, 2016 and 2015 totaled \$ 5,940 and \$ 23,700, respectively .

NOTE E – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 13, 2017, which is the date the financial statements were available to be issued.

NOTE F – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES – RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Organization carries commercial insurance coverage for risks of loss.

NOTE G– TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 were available for the benefit of specific missionaries or projects. The total temporarily restricted net assets at December 31, 2016 and 2015 were \$ 682,506 and \$ 581,413, respectively. The Organization assesses administrative fees of 15% from general missionary contributions and 10% of project contributions.

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE H – LEASES

Equipment

The Organization has a non-cancelable operating lease for office equipment that will expire in March 2021. This lease requires the Organization to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for this lease consisted of \$ 4,600 and \$ 5,607 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments under this operating lease as of December 31, 2016 are:

| Year Ending December 31: | |
|--------------------------|------------------|
| 2017 | \$ 4,341 |
| 2018 | 4,341 |
| 2019 | 4,341 |
| 2020 | 4,341 |
| 2021 | <u>2,170</u> |
| Total | <u>\$ 19,534</u> |

Property Lease and Commitment

On May 25, 2015 the Organization entered into an agreement to lease an unfurnished residential dwelling that it owns to an employee as housing provided in exchange for caretaking duties performed by that employee. The lease term ended on June 24, 2016 and continued on a verbal, month-to-month basis after that date until year end. The Organization did not receive any cash payments under this lease for the year ended December 31, 2016 and none are expected until the time that the lease period ends on June 24, 2016. The rental value of the leased property was \$ 14,400 and \$ 8,400 for the lease term in years ended December 31, 2016 and December 31, 2015, respectively. In January 2017, the Organization entered into a new agreement to lease this dwelling to another tenant-employee in exchange for caretaking duties performed by that employee. The lease term ends on February 24, 2018. The rental value of the leased property would be \$ 11,000 for the year ended December 31, 2017 and \$ 1,000 for the year ended December 31, 2018.

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE I – OIL AND GAS LEASE

In 2013, the Organization received an inheritance of oil and gas rights from a donor's estate. In March 2014, the Organization entered into an oil and gas lease agreement with Range Resources Corporation to lease these rights for a term of 5 years commencing in March 2014. The lessee agrees to pay the Organization 18% of the net amount realized by the lessee for the sale of oil and gas products obtained from the property containing these rights. The lease is valued at the net present value of the future cash flows over the term of the lease, discounted at 3.25% and amortized over the lease term. The net value of the lease at December 31, 2016 and 2015 was \$ 1,455 and \$2,153, respectively.

NOTE J – INCOME TAXES

Open Tax Years

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2013, 2014, and 2015, are subject to examination by the IRS, generally for 3 years after they are filed.

Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)3 of the Internal Revenue Code, except on income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE K – FAIR VALUE MEASUREMENTS

The Organization follows Financial Accounting Standards Board (FASB) ASC 820 *Fair Value Measurements and Disclosures* which established a fair value hierarchy to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The fair value hierarchy consists of the following three levels:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in

EQUIP, INC.
DBA EQUIP, INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE K – FAIR VALUE MEASUREMENTS (CONTINUED)

inactive markets; and inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value of each financial instrument was measured using FASB ASC 820 input guidance and valuation techniques.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2016 and December 31, 2015:

Certificates of Deposit - These investments are public investment vehicles valued using the closing share price at a specific date. These investments are classified with Level 1 of the valuation hierarchy.

Oil and Gas Lease - These assets are classified with Level 3 of the valuation hierarchy.

The preceding method described may produce a fair value calculation that may or may not be indicative of net realizable value or reflective of future values. Furthermore, management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A reconciliation of changes in Level 3 inputs for the years ended December 31, 2016 and 2015, is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Level 3 inputs, beginning of period | \$ 2,153 | \$ 2,851 |
| Future cash flows of \$3,700 discounted at a rate of 3.25% | | |
| Less: Amortization (straight line 5 years) | <u>(698)</u> | <u>(698)</u> |
| Level 3 inputs, end of period | <u>\$ 1,455</u> | <u>\$ 2,153</u> |