



CLEAN THE WORLD FOUNDATION, INC. AND SUBSIDIARY
Consolidated Financial Statements
December 31, 2018
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clean the World Foundation, Inc.
Orlando, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Clean the World Foundation, Inc. and Subsidiary (the "Foundation") (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clean the World Foundation, Inc. and Subsidiary as of December 31, 2018, and the changes in their consolidated net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PRELIMINARY DRAFT

Emphasis of Matter Regarding Transactions With Clean The World Global, LLC

As discussed in Note 5, the Foundation has significant transactions with Clean The World Global, LLC. Our opinion is not modified with respect to this matter.

_____, 2019

Clean the World Foundation, Inc. and Subsidiary
Consolidated Statement of Financial Position
December 31, 2018

Assets

Cash	\$	4,989
Contributions receivable, net		1,902
Undistributed hygiene products		1,762,776
Property and equipment, net		350,979
Other assets		<u>27,000</u>
Total assets	\$	<u><u>2,147,646</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	305,751
Due to Clean The World Global, LLC		4,077
Deposit held from Clean The World Global, LLC		<u>50,000</u>
Total liabilities		<u><u>359,828</u></u>

Net assets

Unrestricted		<u>1,787,818</u>
Total net assets		<u><u>1,787,818</u></u>

Total liabilities and net assets	\$	<u><u>2,147,646</u></u>
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Clean the World Foundation, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended December 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions	\$ 1,127,568	\$ 324,197	\$ 1,451,765
In-kind contributions of hygiene products	3,954,030	-	3,954,030
In-kind contributions of property and equipment	310,000	-	310,000
Hygiene kit distribution fees	351,714	-	351,714
Distribution administration fees	119,306	-	119,306
Royalty and merchandising	5,568	-	5,568
Debt forgiveness	250,000	-	250,000
Net assets released from restrictions	324,197	(324,197)	-
	<u>6,442,383</u>	<u>-</u>	<u>6,442,383</u>
Expenses			
Program services			
Recycling and distribution	5,117,000	-	5,117,000
Awareness and education	288,782	-	288,782
	<u>5,405,782</u>	<u>-</u>	<u>5,405,782</u>
Supporting services			
Management and general	346,639	-	346,639
Fundraising	166,080	-	166,080
Total expenses	<u>5,918,501</u>	<u>-</u>	<u>5,918,501</u>
Increase in net assets	523,882	-	523,882
Net assets			
Beginning of year	<u>1,263,936</u>	<u>-</u>	<u>1,263,936</u>
End of year	<u>\$ 1,787,818</u>	<u>\$ -</u>	<u>\$ 1,787,818</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

PRELIMINARY DRAFT 4

Clean the World Foundation, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services			Supporting Services		
	Recycling and Distribution	Awareness and Education	Total	Management and General	Fundraising	Total
	Advertising	\$ 12,000	\$ 24,000	\$ 36,000	\$ -	\$ -
Bad debts	4,244	-	4,244	-	-	4,244
Charitable contributions	-	-	-	56,500	-	56,500
Distribution of hygiene products	4,345,288	-	4,345,288	-	-	4,345,288
Equipment	2,861	-	2,861	-	-	2,861
Facilities	79,304	24,000	103,304	3,000	3,000	109,304
Fundraising	-	-	-	-	14,236	14,236
Interest and bank fees	-	-	-	23,640	-	23,640
Logistics	109,800	-	109,800	-	-	109,800
Materials	229,050	-	229,050	11,773	3,502	244,325
Personnel	186,137	196,820	382,957	-	143,583	526,540
Postage	-	-	-	3,790	-	3,790
Printing	-	12,163	12,163	-	-	12,163
Professional fees	-	-	-	203,014	-	203,014
Remanufacturing fee	148,316	-	148,316	-	-	148,316
Soap museum	-	3,218	3,218	-	-	3,218
Transportation	-	28,581	28,581	42,198	1,759	72,538
	<u>\$ 5,117,000</u>	<u>\$ 288,782</u>	<u>\$ 5,405,782</u>	<u>\$ 346,639</u>	<u>\$ 166,080</u>	<u>\$ 5,918,501</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

PRELIMINARY DRAFT 5

Clean the World Foundation, Inc. and Subsidiary
Consolidated Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities

Increase in net assets	\$ 523,882
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	2,781
Forgiveness of debt	(250,000)
Bad debts	4,244
In-kind contributions of hygiene products, net	391,260
In-kind contributions of property and equipment	(310,000)
Changes in	
Contributions receivable	128,877
Other assets	(27,000)
Due from Clean the World Asia, LLC	13,180
Accounts payable and accrued expenses	115,297
Due to Clean The World Global, LLC	(505,681)
Net cash provided by operating activities	<u>86,840</u>

Cash flows from investing activities

Purchases of property and equipment	<u>(82,749)</u>
Net cash used in investing activities	<u>(82,749)</u>

Increase in cash and cash equivalents

4,091

Cash and cash equivalents

Beginning of year	<u>898</u>
End of year	<u>\$ 4,989</u>

Supplemental disclosure of non-cash transactions

During the year ended December 31, 2018, The Foundation assigned ownership of equipment valued at \$60,000 in exchange for a reduction in amounts owed to Ventures by the Foundation.

During the year ended December 31, 2018, the Foundation received a reduction in the outstanding payable to Ventures of \$50,000 in exchange for a deposit of the same amount on the future sale of a soap line from the Foundation to Ventures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Clean the World Foundation, Inc. (a nonprofit organization) collects hygiene products such as discarded soaps, shampoos, conditioners, lotions, and gels from hospitality partners and manufacturers, and recycles and distributes the products domestically and internationally for humanitarian aid both directly and through partnering nonprofit organizations. This process takes place primarily at two U.S. recycling operations centers in Orlando, Florida, and Las Vegas, Nevada. Support for providing these services is obtained from both public and private sector contributions as well as administrative fees paid by partnering nonprofit organizations and fees collected for hygiene kits. The base of operations is located in Orlando, Florida.

Subsidiary

Mission Transition Support, LLC is a wholly-owned subsidiary of Clean the World Foundation, Inc., and is the sole member of Global Soap Project, Inc. Global Soap Project, Inc. is a nonprofit organization with a mission similar to Clean the World Foundation, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of the Clean the World Foundation, Inc. ("CTW") and its subsidiary, (collectively, the "Foundation"). All intercompany accounts and transactions have been eliminated.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Cash

At December 31, 2018, the Foundation had deposits with several high credit quality financial institutions. The Foundation's accounts were federally insured up to \$250,000 per institution under Federal Deposit Insurance Corporation ("FDIC") protection. The Foundation had no deposits in excess of FDIC protection at December 31, 2018.

Undistributed Hygiene Products

Undistributed hygiene products are recorded at the estimated fair value of such products at the date they are collected from hospitality partners.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is calculated using the straight-line method over estimated useful lives of five years. Contributed assets are recorded at their estimated fair value at the date of contribution. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Repairs and maintenance are expensed as incurred.

Contributions and Contributions Receivable

Contributions, including unconditional promises to give, are recorded as made. All contributions are reported as an increase in unrestricted net assets unless specifically restricted by the donor. All donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due within one year are recorded at their net realizable value. Unconditional promises to give due after one year are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on an evaluation of the facts and circumstances related to each account. At December 31, 2018, the allowance for doubtful accounts totaled \$18,486.

In-Kind Contributions

In-kind contributions of hygiene products received from hospitality partners are recorded as support and an increase in undistributed hygiene products at the estimated fair value of those items. In addition, in-kind contributions of property and equipment are recorded as support and increases of property and equipment.

A substantial number of volunteers have contributed significant amounts of their time to the Foundation's programs and management. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Hygiene Kit Distribution Fees

Hygiene kit distribution fees are received from Clean The World Global, LLC d/b/a Ventures ("Ventures") for soap, bottles, toothbrushes, and other supplies provided to Ventures for hygiene kit building events. Fees are collected and revenue is recognized at the time of each hygiene kit building event.

Distribution Administration Fees

Distribution administration fees are received from partnering nonprofit organizations for supplying the logistics of distribution and delivery for hygiene products provided by the Foundation. Fees are billed and revenue is recognized at the time of distribution of each shipment of hygiene products.

Income Taxes

The Foundation is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). Accordingly, no provision for income taxes is reflected in the accompanying consolidated financial statements.

Clean the World Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018

Accounting principles generally accepted in the United States of America prescribe requirements for the recognition of income taxes in financial statements, and the amounts recognized are affected by income tax positions taken by the Foundation in its tax returns. The Foundation's status as an exempt organization and its position that none of its revenue is subject to the unrelated business income tax are defined as income tax positions under these requirements. While management believes it has complied with the IRC, the sustainability of some income tax positions taken by the Foundation in its tax returns may be uncertain. There are minimum thresholds of likelihood that uncertain tax positions are required to meet before being recognized in the financial statements. Management does not believe that the Foundation has any material uncertain tax positions at December 31, 2018.

In the event interest and penalties were due relating to an unsustainable tax position, they would be treated as a component of income tax expense.

The Foundation's federal income tax returns are subject to examination by the Internal Revenue Service.

Advertising Costs

The Foundation advertises its mission primarily through maintaining an internet presence and through print media distributed to potential partner hospitality businesses. The Foundation expenses all advertising costs as incurred. Total advertising expenses incurred were \$36,000 for the year ended December 31, 2018.

Change in Accounting Estimate

At January 1, 2018 the Foundation revised the estimate of the value of undistributed bottled hygiene products from \$2.40 per pound to \$1.76 per pound. This change in estimate was based on a market research study performed by management. The change has been applied prospectively and resulted in a decrease of undistributed hygiene products available for distribution of \$230,202 at the date of the change.

Reclassifications

Certain prior year amounts have been reclassified for consistency with current year presentation. The reclassifications had no effect on total assets, liabilities, and net assets.

2. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at December 31, 2018:

	<u>Cost</u>	<u>Estimated Useful Life</u>
Office equipment	\$ 15,991	5 years
Soap museum	97,749	Not in service
Soap line	250,000	Not in service
Less accumulated depreciation	<u>(12,761)</u>	
	<u>\$ 350,979</u>	

Depreciation expense for the year ended December 31, 2018, was \$2,781.

Clean the World Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2018

3. IN-KIND CONTRIBUTIONS OF HYGIENE PRODUCTS

The Foundation received in-kind contributions of recyclable hygiene products from partner hospitality organizations during the year ended December 31, 2018, totaling \$3,954,030.

The Foundation had undistributed hygiene products available for distribution at December 31, 2018, of the following:

	<u>Pounds</u>	<u>Estimated Price Per Pound</u>	<u>Total</u>
Soap	322,683	\$ 3.09	\$ 997,090
Bottled liquid hygiene products	435,049	1.76	<u>765,686</u>
			<u>\$ 1,762,776</u>

At December 31, 2018, the Foundation held undistributed hygiene products totaling \$184,948 at storage facilities located outside the United States of America. This amount is included in the totals previously described.

4. TEMPORARILY RESTRICTED NET ASSETS

There were no temporarily restricted net assets as of December 31, 2018.

5. DUE TO CLEAN THE WORLD GLOBAL, LLC

The Foundation has a contract with Clean The World Global, LLC d/b/a Ventures ("Ventures") which expires December 31, 2026, under which Ventures provides legal, human resources, accounting, information technology, marketing, and hygiene product remanufacturing services, as well as access to offices and warehousing facilities. Ventures bills the Foundation on a monthly basis based on the labor requirements to fulfill the mission of the Foundation. Fees charged to the Foundation for these services totaled \$352,316 for the year ended December 31, 2018. Ventures also occasionally pays certain vendors on the behalf of the Foundation, for which it is reimbursed. The Foundation had an outstanding payable balance to Ventures totaling \$4,077 at December 31, 2018. During the year ended December 31, 2018, Ventures forgave amounts due from the Foundation totaling \$250,000. During the year ended December 31, 2018, The Foundation assigned ownership of equipment valued at \$60,000 in exchange for a reduction in amounts owed to Ventures by the Foundation. The Chairman of the Board of Directors of the Foundation is the majority owner of Ventures.

During the year ended December 31, 2018, the Foundation received a reduction in the outstanding payable to Ventures of \$50,000 in exchange for a deposit of the same amount on the future sale of a soap line from the Foundation to Ventures.

6. SUBSEQUENT EVENTS AND FUTURE OPERATIONS

The Foundation has evaluated subsequent events through _____, 2019, the date which the consolidated financial statements were available to be issued.

At December 31, 2018, the Foundation had cash and accounts receivable, net, amounting to \$6,891 with third-party accounts payable and accrued expenses of \$305,751. For the year ended December 31, 2018, as discussed in Note 5, the Foundation had debt forgiveness from Ventures of \$250,000 and non-cash reductions of amounts owed to Ventures of \$110,000.

Management has proactively pursued improving the aforementioned conditions, and has made a concerted effort, through collaboration with Ventures and donors, to address its future operations. In addressing future operations, management has revised its strategy for identifying, obtaining, and retaining donors through the hiring of a Director of Development with responsibilities solely related to this objective. Additionally, management has been assured by Ventures that there will be continued support of the Foundation as it works to improve cash flows, reduce third-party accounts payable, pay liabilities as they come due, and increase the operating cash balance.

As a result of the commitment of continued support from Ventures and the expected results from the Director of Development hiring, it is not considered necessary for these financial statements to include any adjustments to reflect the possible future effects, if any, on the recoverability and classification of recorded assets or the amounts and classifications of liabilities that may result from the outcome of the uncertainties arising from the facts described in the second paragraph.