Childcare Worldwide

Financial Statements with
Independent Auditor's Report

15-Month Period Ended December 31, 2020

Larson Gross

Childcare Worldwide

Contents

Independent Auditor's Report

To the Board of Directors
Childcare Worldwide
Bellingham, Washington

Report on the Financial Statements
We have audited the accompanying financial statements of Childcare Worldwide, which comprise the statement of financial position as of December 31, 2020, the related statements of activities, functional expenses, and cash flows for the 15-month period 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 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 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childcare Worldwide as of December 31, 2020, and the changes in its net assets and its cash flows for the 15-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Larson Gross PLLC

Bellingham, Washington
March 25, 2021

Childcare Worldwide

Statement of Financial Position

December 31, 2020

Assets		
Cash and cash equivalents	$	2,355,517
Prepaid and other		32,175
Land, property, and equipment, net		1,889,567
Total assets	$	4,277,259
Liabilities and Net Assets		
Accounts payable	$	8,816
Accrued liabilities		26,888
Deferred compensation		171,000
Note payable		971,420
Total liabilities		1,178,124
Net assets		
Without donor restrictions		
Board designated		78,500
Net investment in land, property, and equipment		918,147
Undesignated		790,803
Total without donor restrictions		1,787,450
With donor restrictions		1,311,685
Total net assets		3,099,135
Total liabilities and net assets	$	4,277,259

Childcare Worldwide

Statement of Activities

15-Month Period Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	$ 4,122,147	$ 909,854	$ 5,032,001
Forgiveness of Paycheck Protection Program loan	208,800	-	208,800
Other income	40,462	-	40,462
Satisfation of restrictions	44,012	(44,012)	-
Total support and revenue	4,415,421	865,842	5,281,263
Expenses			
Program services	2,954,644	-	2,954,644
Management and general	596,083	-	596,083
Fundraising	647,539	-	647,539
Total expenses	4,198,266	-	4,198,266
Changes in net assets	217,155	865,842	1,082,997
Net assets – beginning of period	1,570,295	445,843	2,016,138
Net assets – end of period	$ 1,787,450	$ 1,311,685	$ 3,099,135

Childcare Worldwide

Statement of Functional Expenses

15-Month Period Ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Grants and other support to foreign ministries	$ 2,153,798	$ -	$ -	$ 2,153,798
Salaries and benefits	613,237	429,466	394,607	1,437,310
Miscellaneous	48,876	53,860	45,271	148,007
Marketing and donor relations	5,688	3,064	128,731	137,483
Office overhead	39,172	24,748	26,500	90,420
Depreciation and amortization	31,424	24,114	20,421	75,959
Interest expense	25,081	21,610	16,235	62,926
Utilities and building maintenance	16,962	21,822	11,080	49,864
Professional services	8,992	16,676	3,170	28,838
Travel	11,414	723	1,524	13,661
	$ 2,954,644	$ 596,083	$ 647,539	$ 4,198,266

Childcare Worldwide

Statement of Cash Flows

15-Month Period Ended December 31, 2020

Cash flows from operating activities	
Changes in net assets	$ 1,082,997
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	75,008
Amortization of debt issuance costs	951
Gain on sale of land, property, and equipment	(17,185)
Gain on forgiveness of Paycheck Protection Program loan	(208,800)
Decrease in assets	
Prepaid and other	12,807
Increase (decrease) in liabilities	
Accounts payable	(18,751)
Accrued liabilities	6,909
Deferred compensation	(17,000)
Net cash provided by operating activities	916,936
Cash flows from investing activities	
Proceeds from sale of land, property, and equipment	37,789
Purchase of land, property and equipment	(7,345)
Net cash provided by investing activities	30,444
Cash flows from financing activities	
Proceeds from Paycheck Protection Program loan	208,800
Repayments and issuance costs of note payable	(32,991)
Net cash provided by financing activities	175,809
Net change in cash and cash equivalents	1,123,189
Cash and cash equivalents – beginning of period	1,232,328
Cash and cash equivalents – end of period	$ 2,355,517
Supplemental Disclosures of Cash Flow Information	
Cash paid for interest	$ 59,911
Non-cash investing and financing activities:	
Forgiveness of Paycheck Protection Program loan	$ 208,800

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Childcare Worldwide (the Organization), a California nonprofit corporation, has administrative offices in Washington State and conducts ministry efforts internationally. The Organization provides support to affiliated organizations in foreign countries, including Kenya, Uganda, Haiti, Mexico, Thailand, Peru, Sri Lanka, and India. The activities in these countries are centered upon our core mission of sharing the Gospel of Jesus Christ with needy children through our Life Center model. Life Centers are weekly meetings hosted by local churches in which children receive Bible teaching, are provided a nutritious meal, and benefit from the personal care and attention of their Life Center teachers. In conjunction with meeting spiritual needs we seek to meet the felt needs of the children in our care, and by extension their families and communities, through educational assistance, food, medical aid, shelter, clothing, water projects and other holistic support.

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

Basis of presentation – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> **Net assets without donor restrictions** – Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control are classified as net assets without donor restrictions.
>
> **Net assets with donor restrictions** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time, including contributions that have been restricted by the donor that stipulate the resources be maintained in perpetuity, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specific or unspecified purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose of restrictions. When donor restrictions are met during the same period that the contribution is received, the contribution is recorded as without donor restrictions.

Cash and cash equivalents – Cash and cash equivalents consist of checking and money market accounts and for purposes of cash flows are defined as all highly liquid investments with an initial maturity of three months or less. The Organization maintains cash and cash equivalent balances at various financial institutions. The accounts may exceed insured limits at times during the period. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

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

Land, property, and equipment – The Organization capitalizes all land, property, and equipment acquisitions in excess of $2,500. Land, property, and equipment are recorded at cost or, if acquired as a donation, at the estimated fair market value at the date donated. Additions, improvements or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which range from 5 to 39 years.

Contributions – Contribution revenue consists of general contributions and grants, and is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated goods and services – Donations of supplies, equipment, and other goods and services are recorded at estimated fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require special skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and the statement of functional expenses by natural classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited and have been allocated on a reasonable basis that is consistently applied. The Organization allocates expenses on the functional basis based on the employee count by department for each functional classification.

Federal income tax – The Organization is a non-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

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. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 25, 2021, the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2020, consist of the following:

Cash and cash equivalents	$ 2,355,517
Less amounts not available for general expenditure	
Board-designated	(78,500)
Donor-restricted	(1,311,685)
	$ 965,332

The Organization has certain donor-restricted assets and board-designated assets limited to use which are not available for general expenditure within one year in the normal course of business. Accordingly, these assets have been included in the qualitative information above. Board designated assets could be made available as needed.

The goal of the Organization is to maintain $475,000 in cash reserves as emergency funds. Cash reserves may be maintained in investment or money market accounts. The Organization had a balance of $2,211,199 in money market accounts as of December 31, 2020.

As of December 31, 2020, the Organization has working capital of $2,486,298 and average days (based on normal expenditures) cash on hand of 259.

Note 3 – Land, Property, and Equipment

Land, property, and equipment consist of the following at December 31, 2020:

Buildings and improvements	$ 1,515,187
Land	540,000
Office equipment	40,778
Other	721
	2,096,686
Less accumulated depreciation	(207,119)
	$ 1,889,567

Depreciation expense totaled $75,008 for the 15-month period ended December 31, 2020.

Note 4 – Deferred Compensation

The Organization has an unfunded post-retirement plan for the Organization's founder and former President/CEO, Dr. Max Lange (the Founder). Benefits of $3,000 per month are to be paid to the Founder or his spouse for the duration of their lives, to be continued through the life of whomever lives the longest. The Organization accrues the projected future costs of providing post-retirement benefits during the period that employees render the services necessary to be eligible for such benefits***.*** The accrued deferred compensation from this arrangement totaled $171,000 as of December 31, 2020. The discount rate used in determining the accrued deferred compensation was 1.077% at December 31, 2020. Benefits totaling $45,000 were paid by the Organization during the 15-month period ended December 31, 2020.

The Founder retired effective October 31, 2018. Estimated future benefits to be paid are as follows for the years ending December 31:

2021	$	35,600
2022		35,200
2023		34,900
2024		34,500
2025		30,800
	$	171,000

Note 5 – Note Payable

In October 2016, the Organization obtained a 15-year note payable from a local financial institution to finance the purchase of land and an office building located in Bellingham, Washington and secured by the real property. Imbedded in the note payable is a rate conversion agreement to fix the interest rate on the remaining amount of the note at 4.73%. Prior to the rate conversion agreement, the variable interest rate on the note was based on one-month LIBOR plus 2.75%. The note requires monthly principal and interest payments totaling $6,193 with a final balloon payment for the remaining balance due in November 2031. The note payable consisted of the following at December 31, 2020:

Note payable to financial institution	$	980,040
Less: Unamortized debt issuance costs		(8,620)
Note payable, less unamortized debt issuance costs	$	971,420

Amortization of the debt issuance costs totaled $951 for the 15-month period ended December 31, 2020. Interest expense totaled $59,911 for the 15-month period ended December 31, 2020.

Note 5 – Note Payable – (Continued)

Future minimum principal payments for the years ending December 31 are as follows:

2021	$ 27,932
2022	29,302
2023	30,738
2024	32,124
2025	33,820
Thereafter	826,124
	$ 980,040

Note 6 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2020:

International programs and other	$ 559,131
Pledges for child sponsorship and operations	752,554
	$ 1,311,685

Note 7 – Risk and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, to date, the Organization has experienced uncertainty around whether certain programs will be able to operate in their typical manner. If activities and gatherings are restricted by law or deemed unsafe by the Organization, it is at least reasonably possible that the Organization would experience negative impacts on revenues and labor availability in the near future.

Note 8 – Impact of Accounting Method Change

The Financial Accounting Standards board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Organization adopted the requirements of the new guidance as of October 1, 2019, utilizing the modified retrospective method of transition. The Organization did not recognize any adjustments in changes in revenue, net assets, or any other financial statement line item as a result of adopting ASC 606.

Note 9 – Recent Accounting Pronouncement

In February 2016, the FASB issued an Accounting Standards Update (ASU) 2016-02, *Leases,* which requires lessees to record most leases with terms greater than 12 months on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is required for annual periods beginning after December 15, 2021. The Organization continues to evaluate the impact of the new accounting guidance on its combined financial statements.