Childcare Worldwide

Financial Statements with
Independent Auditor's Report

Years Ended December 31, 2022 and 2021

WERSEN NONPROFIT CPAs LLC

Childcare Worldwide

Contents

Independent Auditor's Report

To the Board of Directors
Childcare Worldwide
Lynden, Washington

Opinion
I have audited the accompanying financial statements of Childcare Worldwide (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childcare Worldwide as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Childcare Worldwide and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Matter
The December 31, 2021 financial statements of Childcare Worldwide were audited by other auditors, whose report dated March 28, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Childcare Worldwide's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Childcare Worldwide's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Childcare Worldwide's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Keith Yhum

Bellingham, Washington
April 26, 2023

Childcare Worldwide

Statements of Financial Position

December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 1,915,568	$ 2,532,224
Prepaid expenses and other assets	108,043	162,135
Right-of-use assets	77,250	-
Total assets	$ 2,100,861	$ 2,694,359
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 65,767	$ 53,727
Deferred compensation	151,000	174,000
Lease liabilities	76,277	-
Total liabilities	293,044	227,727
Net assets		
Without donor restrictions		
Board-designated	151,000	174,000
Undesignated	976,337	1,424,049
Total without donor restrictions	1,127,337	1,598,049
With donor restrictions	680,480	868,583
Total net assets	1,807,817	2,466,632
Total liabilities and net assets	$ 2,100,861	$ 2,694,359

Childcare Worldwide

Statements of Activities

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Support and revenue						
Contributions	$ 2,920,384	$ 390,217	$ 3,310,601	$ 3,323,968	$ 167,642	$ 3,491,610
Other income (loss)	(5,384)	-	(5,384)	12,121	-	12,121
Satisfaction of restrictions	578,320	(578,320)	-	610,744	(610,744)	-
Total support and revenue	3,493,320	(188,103)	3,305,217	3,946,833	(443,102)	3,503,731
Expenses						
Program services	2,811,011	-	2,811,011	2,528,250	-	2,528,250
Management and general	490,965	-	490,965	527,769	-	527,769
Fundraising	662,056	-	662,056	509,175	-	509,175
Total expenses	3,964,032	-	3,964,032	3,565,194	-	3,565,194
Loss on sale of property and equipment	-	-	-	(571,040)	-	(571,040)
Changes in net assets	(470,712)	(188,103)	(658,815)	(189,401)	(443,102)	(632,503)
Net assets – beginning of year	1,598,049	868,583	2,466,632	1,787,450	1,311,685	3,099,135
Net assets – end of year	$ 1,127,337	$ 680,480	$ 1,807,817	$ 1,598,049	$ 868,583	$ 2,466,632

Childcare Worldwide

Statements of Functional Expenses

Years Ended December 31, 2022

	2022				2021			
	Program Services	**Management and General**	**Fundraising**	**Total**	**Program Services**	**Management and General**	**Fundraising**	**Total**
Grants and support to foreign ministries	$ 2,166,637	$ -	$ -	$ 2,166,637	$ 1,921,004	$ -	$ -	$ 1,921,004
Salaries, benefits, and payroll taxes	502,484	378,398	446,872	1,327,754	497,097	356,805	319,298	1,173,200
Marketing and donor relations	27,332	5,846	135,249	168,427	3,588	16,635	67,367	87,590
Miscellaneous	47,330	26,923	29,226	103,479	65,244	35,954	47,153	148,351
Office overhead	8,127	29,440	26,352	63,919	16,128	40,527	19,280	75,935
Occupancy	23,751	20,992	9,932	54,675	21,810	17,816	11,294	50,920
Travel	35,350	266	14,425	50,041	2,196	2,755	4,023	8,974
Professional services	-	29,100	-	29,100	1,183	57,277	40,760	99,220
Total expenses	$ 2,811,011	$ 490,965	$ 662,056	$ 3,964,032	$ 2,528,250	$ 527,769	$ 509,175	$ 3,565,194

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

Childcare Worldwide

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Changes in net assets	$ (658,815)	$ (632,503)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation expense	7,561	29,203
Loss on sale of property and equipment	-	571,040
Increase in the carrying amount of deferred compensation	15,982	39,000
Reduction in the carrying amount of right-of-use assets	45,371	-
Changes in assets and liabilities:		
Prepaid expenses and other assets	(21,735)	(31,818)
Accounts payable and accrued liabilities	12,040	18,023
Deferred compensation	(38,982)	(36,000)
Lease liability	(46,344)	-
Net cash used by operating activities	(684,922)	(43,055)
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	1,279,317
Purchases of property and equipment	-	(16,500)
Net proceeds (purchases) from other investing activities	68,266	(71,635)
Net cash provided by investing activities	68,266	1,191,182
Cash flows from financing activities		
Repayments of note payable	-	(971,420)
Net cash used by financing activities	-	(971,420)
Net increase in cash and cash equivalents	(616,656)	176,707
Cash and cash equivalents – beginning of year	2,532,224	2,355,517
Cash and cash equivalents – end of year	$ 1,915,568	$ 2,532,224
Supplemental cash flow information		
Cash paid during the year for interest	$ -	$ 31,825

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Childcare Worldwide (the Organization) is a California nonprofit corporation formed in 1988. The Organization has administrative offices in Washington State and conducts ministry efforts internationally. The Organization provides support to affiliated organizations in foreign countries, including Uganda, Kenya, and Peru, as well as other unaffiliated partnering groups in Haiti, India, Sri Lanka and Thailand. 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. Accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation – The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Under this standard, the Organization is required to present its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restrictions.

> *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.
>
> *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions or time restrictions that will be met either through actions of the Organization or by passage of time, including contributions restricted by the donor to be invested in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets 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. In the period donor restrictions are met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as satisfaction of restrictions. When donor restrictions are met during the same period that the contribution is received, the contribution is recorded as net assets without donor restrictions.

Cash and cash equivalents – The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash in bank accounts that may exceed federally insured limits at times during the year. 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)

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of $2,500. Property and equipment acquisitions are recorded at cost or, if acquired as a donation, at fair value at the date of donation. 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 five to seven years.

Leases – The Organization determines if an arrangement is, or contains, a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. All lease related expenses are presented as occupancy expense on the accompanying statements of functional expenses.

Contributions – Contribution revenue consists of 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 goods and services are recorded at their estimated fair values at the date of donation. Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased. In addition, many volunteers have donated significant amounts of time to the Organization's program services and fundraising campaigns. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition. Further, there were no donated goods or services received or recognized during the years ended December 31, 2022 and 2021.

Advertising – Advertising costs are expensed as incurred and totaled $168,427 and $87,590 for the years ended December 31, 2022 and 2021, respectively. These expenses are presented as marketing and donor relations in the accompanying statements of functional expenses.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on the functional basis in the accompanying statements of activities and functional expenses. Expenses are directly allocated where possible and certain expenses not directly related to a particular function are allocated on a reasonable basis that is consistently applied. The Organization allocates facilities-related expenses based on the square-footage of occupied offices and other allocated expenses based on actual logged or estimated usage per department.

Federal income taxes – The Organization is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax on income derived from activities related to its tax-exempt purposes. Accordingly, no provision for income tax is necessary.

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

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Recently adopted accounting standards – In 2022, the Organization adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases*. This guidance, as amended by subsequent ASU's on the topic, requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, are required. The Organization elected not to restate the comparative period (2021). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing this new standard, the Organization recognized ROU assets of $77,250 and lease liabilities totaling $76,277 in its statement of financial position as of December 31, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 26, 2023, the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

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

	2022	2021
Cash and cash equivalents	$ 1,915,568	$ 2,532,224
Other financial assets	19,337	79,811
Less amounts not available for general expenditure within one year		
Board-designated reserve	(151,000)	(174,000)
Donor-restricted for specific purposes	(680,480)	(868,583)
	$ 1,103,425	$ 1,569,452

The Organization's board of directors has set aside certain amounts as a general operating reserve. Such balance may not be drawn upon without the prior authorization of the board of directors. In addition, the Organization has certain donor-restricted net assets limited to use (see Note 6), which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been subtracted from the quantitative information above.

Note 2 – Liquidity and Availability – (Continued)

The goal of the Organization is to maintain $400,000 in cash reserves as emergency funds. Cash reserves may be maintained in investment or money market accounts. The Organization had funds held in money market accounts totaling $1,425,574 and $2,373,809 as of December 31, 2022 and 2021, respectively.

Note 3 – Leases

The Organization evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent the Organization’s right to use underlying assets for the lease term, and the lease liabilities represent the Organization’s obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The risk-free rate applied to calculate lease liabilities was 1.04% as of December 31, 2022.

The Organization’s operating leases consist of those for office equipment and office space in Lynden, Washington. One lease term includes a three-year extension, available at the Organization’s option, which it is reasonably certain to exercise. Therefore, the payments associated with the extension are included in the ROU asset and the lease liability recognized as of December 31, 2022.

For the year ended December 31, 2022, total operating lease cost was $43,587, and total short-term lease cost was nil. As of December 31, 2022, the weighted-average remaining lease term for the Organization’s operating leases was approximately 2.5 years. Rent expense under FASB ASC 840 (pre-adoption of the new standards) for operating leases totaled $20,898 for the year ended December 31, 2021.

There were no noncash investing and financing transactions related to leasing other than the transition entry described in note 1.

Future maturities of lease liabilities are presented in the following table, for the fiscal years ending December 31:

2023	$	48,240
2024		27,240
2025		4,440
2026		2,220
Total lease payments		82,140
Less present value discount		(5,863)
	$	76,277

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. Effective January 1, 2022, the monthly payment was increased to $3,248. The Organization accrues the projected future costs of providing post-retirement benefits during the year that employees render the services necessary to be eligible for such benefits. The accrued deferred compensation from this arrangement totaled $151,000 and $174,000 as of December 31, 2022 and 2021, respectively. The discount rate used in determining the accrued deferred compensation was 2.77% and 0.217% at December 31, 2022 and 2021, respectively. Benefits totaling $38,982 and $36,000 were paid by the Organization during the years ended December 31, 2022 and 2021, respectively.

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

2023	$ 37,900
2024	36,900
2025	35,900
2026	34,900
2027	5,400
	$ 151,000

Note 5 – Note Payable

The Organization had a 15-year note payable to finance the purchase of land and an office building located in Bellingham, Washington. In August 2021, the land and building were sold, and the note payable was paid in full. The Organization incurred a loss on the sale totaling $571,040 during the year ended December 31, 2021.

Note 6 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of December 31:

	2022	2021
International programs and other support	$ 436,834	$ 517,165
Pledges for child sponsorship and operations	243,646	351,418
	$ 680,480	$ 868,583

Note 7 – Related Parties

The Organization provides financial assistance to certain foreign charities that are affiliated with the Organization through common board members. These foreign affiliates exist to support the same mission as the Organization. The Organization provides significant financial and educational support to these affiliates. While the affiliates have an economic interest in the Organization, the Organization lacks the prerequisite level of control over the affiliates to require consolidation. Thus, the affiliates' financial statements are not consolidated within the Organization's financial statements at December 31, 2022 and 2021. Grants and support provided to these foreign affiliates totaled the following during the years ended December 31:

	2022	2021
Childcare Worldwide Uganda	$ 1,074,934	$ 783,557
Childcare Worldwide Kenya	533,985	571,718
Obra Social Cristiana Childcare Worldwide Peru	252,300	176,524
	$ 1,861,219	$ 1,531,799