Childcare Worldwide

Combined Financial Statements with
Independent Auditor's Report

Year Ended September 30, 2017
(with Summarized Comparative Totals
for the Year Ended September 30, 2016)

Larson Gross

Childcare Worldwide

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Larson Gross

Independent Auditor's Report

To the Board of Directors
Childcare Worldwide
Bellingham, Washington

We have audited the accompanying combined financial statements of Childcare Worldwide, which comprise the combined statement of financial position as of September 30, 2017, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We did not audit the financial statements of Childcare Worldwide–Uganda, Childcare Worldwide–Kenya, Help the Children–India, Childcare Worldwide–Haiti, and Obra Social Cristiana Childcare Worldwide–Peru, related foreign affiliates, which statements reflect total assets and revenue constituting 16% and 0% of the combined total assets and combined total revenue, respectively, for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Childcare Worldwide, is based solely on the report of the other auditors. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Childcare Worldwide as of September 30, 2017, 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.

Other Matter
Report on Summarized Comparative Information
We have previously audited Childcare Worldwide's 2016 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
January 26, 2018

Childcare Worldwide

Combined Statement of Financial Position

September 30, 2017

(With Summarized Comparative Totals for September 30, 2016)

Assets

	2017	2016
Cash and cash equivalents	$ 1,056,856	$ 1,367,806
Investments	134,977	192,446
Prepaid and other	6,768	36,139
Land, property, and equipment, net	2,541,895	651,537
Total assets	$ 3,740,496	$ 2,247,928

Liabilities and Net Assets

	2017	2016
Accounts payable	$ 120,860	$ 147,963
Accrued liabilities	52,797	44,955
Note payable	1,050,793	-
Total liabilities	1,224,450	192,918
Net assets		
Unrestricted		
Board designated	93,395	78,395
Undesignated	1,899,736	1,333,545
Total unrestricted net assets	1,993,131	1,411,940
Temporarily restricted	522,915	643,070
Total net assets	2,516,046	2,055,010
Total liabilities and net assets	$ 3,740,496	$ 2,247,928

Childcare Worldwide

Combined Statement of Activities

Year Ended September 30, 2017

(With Summarized Comparative Totals for Year Ended September 30, 2016)

	2017	2016
Changes in unrestricted net assets		
Revenue		
Contributions	$ 4,378,950	$ 4,021,244
In-kind contribution	450,000	-
Loss on sale of land, property, and equipment	(4,565)	(16,414)
Investment return	20,313	20,334
Net assets released from restrictions	253,977	399,491
Total unrestricted revenue and support	5,098,675	4,424,655
Expenses		
Program services		
International programs	3,203,863	3,039,950
Domestic programs	746,937	760,365
Total program services	3,950,800	3,800,315
Supporting activities		
Administration	157,693	137,640
Fundraising	385,229	394,611
Total supporting activities	542,922	532,251
Total expenses	4,493,722	4,332,566
Increase in unrestricted net assets	604,953	92,089
Changes in temporarily restricted net assets		
Contributions	133,822	231,947
Net assets released from restrictions	(253,977)	(399,491)
Decrease in temporarily restricted net assets	(120,155)	(167,544)
Increase (decrease) in net assets	484,798	(75,455)
Foreign currency translation adjustment	(23,762)	47,956
Net assets - beginning of year	2,055,010	2,082,509
Net assets - end of year	$ 2,516,046	$ 2,055,010

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

Childcare Worldwide

Combined Statement of Functional Expenses

Year Ended September 30, 2017

(With Summarized Comparative Totals for Year Ended September 30, 2016)

	Program Services				Supporting Services			
	International Programs	Domestic Programs	Total 2017	Total 2016	Administration	Fundraising	Total 2017	Total 2016
Children's program	$ 1,646,941	$ -	$ 1,646,941	$ 1,900,853	$ -	$ -	$ -	$ -
Salaries and benefits	856,606	498,173	1,354,779	1,286,632	65,179	143,879	209,058	193,775
Other ministry	283,069	123,358	406,427	255,070	1,777	122,006	123,783	192,392
Travel	95,490	54,404	149,894	176,034	106	1,450	1,556	8,567
Supplies, printing, and postage	66,806	13,666	80,472	46,633	-	20,485	20,485	24,226
Depreciation	34,227	57	34,284	32,124	61,442	96	61,538	29,927
Utilities, rent, and building maintenance	98,488	20,193	118,681	76,309	29,103	33,655	62,758	28,039
Miscellaneous	86,161	26,264	112,425	26,660	86	45,621	45,707	14,356
Outside services	36,075	10,822	46,897	-	-	18,037	18,037	40,969
	$ 3,203,863	$ 746,937	$ 3,950,800	$ 3,800,315	$ 157,693	$ 385,229	$ 542,922	$ 532,251

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

Childcare Worldwide

Combined Statement of Cash Flows

Year Ended September 30, 2017

(With Summarized Comparative Totals for Year Ended September 30, 2016)

	2017	2016
Cash flows from operating activities		
Increase (decrease) in net assets	$ 484,798	$ (75,455)
Adjustments to reconcile increase (decrease) in net assets		
to net cash provided by operating activities		
Depreciation	95,822	62,051
Loss on sale of land, property, and equipment	4,565	16,414
Non-cash contribution of building purchase discount	(450,000)	-
Net unrealized gain on investments	(16,245)	(14,711)
Decrease in assets		
Prepaid and other	29,371	9,283
Increase (decrease) in liabilities		
Accounts payable	(27,103)	67,555
Accrued liabilities	7,842	7,402
Net cash provided by operating activities	129,050	72,539
Cash flows from investing activities		
Proceeds from sale of investments	73,714	-
Proceeds from sale of land, property, and equipment	2,500	6,393
Purchase of property and equipment	(486,555)	(194,194)
Net cash used by investing activities	(410,341)	(187,801)
Cash flows from financing activities		
Repayments and issuance costs of note payable	(29,207)	-
Net cash used by financing activities	(29,207)	-
Net decrease in cash and cash equivalents	(310,498)	(115,262)
Effect of exchange rates on foreign currency translation	(452)	15,568
Cash and cash equivalents - beginning of year	1,367,806	1,467,500
Cash and cash equivalents - end of year	$ 1,056,856	$ 1,367,806
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 43,820	$ -
Non-cash investing and financing activities:		
Discount on purchase of building	$ 450,000	$ -
Land and building purchased through notes payable issuance	$ 1,080,000	$ -

Note 1 – Summary of Significant Accounting Policies

Organizations – Childcare Worldwide (the Organization) receives contributions of funds and donated goods from Christian relief organizations, churches, and individuals. The Organization's ministry efforts are conducted in international and domestic areas. International ministries support and direct ministry in foreign countries, including Kenya, Uganda, Haiti, Mexico, Thailand, Peru, Sri Lanka, and India. The activities in these countries include feeding, clothing, and educating the poor, providing medical assistance, housing orphans and performing evangelism, and encouraging the study of the Bible. Domestic ministries include ministry team expenses and publication ministries.

The Organization purchased property in Bellingham, Washington in November 2016 and moved its main office to this location in April 2017. See Note 3 for more detail.

Principles of combination – The combined financial statements include the financial statements of the following affiliated organizations: Childcare Worldwide – Uganda, Childcare Worldwide – Kenya, Help the Children – India, Childcare Worldwide – Haiti, and Obra Social Cristiana Childcare Worldwide – Peru. Childcare Worldwide and all affiliated organizations are collectively referred to as "the Organization" or "Childcare Worldwide." All significant inter-organization accounts and transactions have been eliminated in combination.

Basis of accounting – The Organization prepares its combined 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:

> **Unrestricted net assets** – Net assets that are not subject to externally imposed restrictions.
>
> **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.
>
> **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets as of September 30, 2017 or 2016.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Restricted net assets are reclassified to unrestricted net assets 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 unrestricted net assets.

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

Cash and cash equivalents – Cash and cash equivalents consist of checking and money market accounts and for purposes of combined cash flows are defined as all highly liquid investments with an initial maturity of three months or less.

Concentrations of credit risk – Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents. Childcare Worldwide maintains cash and cash equivalent balances at various foreign and domestic financial institutions. The accounts may exceed 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.

Investments – Investments consist mainly of certificates of deposit, equity securities, and mutual funds and are recorded at fair value. Unrealized investment gains and losses are included in the changes in net assets. Investment income or loss is reported as an increase or decrease in unrestricted net assets unless the investment income on restricted assets also is restricted by the donor, resulting in such investment income being recorded as restricted until time or purpose restrictions are satisfied.

Land, property, and equipment – The Organization capitalizes all land, property, and equipment acquisitions in excess of $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 and amortization is recorded using the straight-line method over estimated useful lives of the assets, which range from 5 to 39 years. Depreciation expense totaled $95,822 and $62,051 for the years ended September 30, 2017 and 2016, respectively.

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 are recorded at 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 under ASC 958-605-25-16, *Not-for-Profit Entities – Recognition of Contributed Services.*

The Organization received an in-kind donation totaling $450,000 on the purchase of land and an office building during the year. See Note 3 for more detail.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying combined statement of activities and the combined statement of functional expenses by natural classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

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 of income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

Foreign currency translation – The functional currency of the Organization's affiliated organizations is the local currency. The Organization translates all assets and liabilities to U.S. dollars at the current exchange rates as of the applicable statement of financial position date. Expenses are translated using the average exchange rate for the period. Gains and losses resulting from the translation of the foreign subsidiaries' financial statements are reported as a component of unrestricted net assets. Net gains and losses resulting from foreign exchange transactions are recorded on the combined statement of activities.

Use of estimates – The preparation of combined 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 combined 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 combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 26, 2018, the date the combined financial statements were available to be issued.

Note 2 – Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable for the asset or liability.

Note 2 – Fair Value Measurements – (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. At both September 30, 2017 and 2016, all investments are measured using level 1 inputs based on quoted prices in active markets for identical assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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. There were no changes in valuation methods during the years ended September 30, 2017 and 2016.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30:

	2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 105,845	$ -	$ -	$ 105,845
Mutual funds	29,132	-	-	29,132
	$ 134,977	$ -	$ -	$ 134,977

	2016			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 105,634	$ -	$ -	$ 105,634
Equity securities	62,882	-	-	62,882
Mutual funds	23,930	-	-	23,930
	$ 192,446	$ -	$ -	$ 192,446

To assess the appropriate classification of investments with the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the year ended September 30, 2017, there were no significant transfers in or out of Level 3.

Note 2 – Fair Value Measurements – (Continued)

Investment return consists of the following for the years ended September 30:

	2017	2016
Interest and dividends	$ 4,179	$ 5,523
Unrealized gains	16,245	14,711
Other	(111)	100
	$ 20,313	$ 20,334

Note 3 – Land, Property, and Equipment

Land, property, and equipment consist of the following at September 30:

	2017	2016
Buildings and improvements	$ 1,879,495	$ 459,738
Land	600,790	64,340
Automobiles	247,472	271,988
Office equipment	98,930	127,402
Other	2,375	22,047
	2,829,062	945,515
Less accumulated depreciation and amortization	(287,167)	(293,978)
	$ 2,541,895	$ 651,537

In November 2016, the Organization purchased land and an office building located at 315 Lakeway Drive in Bellingham, Washington from an unrelated entity for a total purchase price of $1,800,000. The purchase price included a discount from the estimated fair value of the property at the time of purchase of $450,000, which was recorded as contribution during the year ended September 30, 2017. The purchase was funded primarily through debt issuance (see Note 4). The Organization borrowed $1,080,000 from a local financial institution and the remaining purchase price was financed through the sale of investments.

The above reconciles to total land, property, and equipment as follows at September 30:

	2017	2016
United States	$ 2,062,085	$ 132,731
Foreign affiliates	479,810	518,806
	$ 2,541,895	$ 651,537

Note 4 – 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 (see Note 3). 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. As of September 30, 2017, the note payable consisted of:

Note payable to financial institution	$ 1,061,886
Less: Unamortized debt issuance costs	(11,093)
Note payable, less unamortized debt issuance costs	$ 1,050,793

Amortization of the debt issuance costs for the year ended September 30, 2017 totaled $382, and is reported as depreciation expense in the combined statement of functional expenses. Interest expense for the year ended September 30, 2017 totaled $43,820.

Future minimum principal payments for the years ending September 30 are as follows:

2018	$ 23,915
2019	25,088
2020	26,183
2021	27,601
2022	28,954
Thereafter	930,145
	$ 1,061,886

Note 5 – Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2017	2016
International programs and other	$ 371,689	$ 469,180
Pledges for child sponsorship and operations	151,226	173,890
	$ 522,915	$ 643,070

Note 6 – Leases

The Organization leased its premises under an operating lease which was terminated in April 2017 subsequent to the purchase of an office building where operations were relocated to (see Note 3). Monthly base lease payments totaled $5,074 for the years ended September 30, 2017 and 2016, respectively. Total rent expense for the years ended September 30, 2017 and 2016 totaled $44,371 and $67,137, respectively.

In November 2016, the Organization entered into a 5-year operating lease for office equipment. Monthly base lease payments totaled $756 for the year ended September 30, 2017. Total rent expense for the year ended September 30, 2017 totaled $8,395.

Future minimum payments under the office equipment operating lease are as follows for the years ending September 30:

2018	$ 9,068
2019	9,068
2020	9,068
2021	8,313
	$ 35,517

Note 7 – Geographic Area of Operations

Included in the Organization's combined financial statements are net assets of Childcare Worldwide's international operations. Information related to the net assets in international countries is as follows at September 30:

	2017	2016
Uganda	$ 277,850	$ 350,507
Kenya	188,266	418,215
Peru	32,480	36,752
Haiti	33,256	22,895
India	20,733	18,559
	$ 552,585	$ 846,928

The above reconciles to total net assets as follows at September 30:

	2017	2016
United States	$ 1,963,461	$ 1,208,082
Foreign affiliates	552,585	846,928
	$ 2,516,046	$ 2,055,010