Childcare Worldwide

Combined Financial Statements with
Independent Auditor's Report

Year Ended September 30, 2015
(with Summarized Comparative Totals
for the Year Ended September 30, 2014)

Larson Gross

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Independent Auditor's Report

To the Board of Directors
Childcare Worldwide
Bellingham, Washington

Report on the Financial Statements
We have audited the accompanying combined financial statements of Childcare Worldwide, which comprise the combined statement of financial position as of September 30, 2015, and the related combined statements of activities, functional expenses by natural classification, 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 SILOE-Peru, related foreign affiliates, which statements reflect total assets and revenue constituting 37% and 4% 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.

2211 Rimland Drive, Suite 422 ▸ Bellingham, WA 98226
PHONE 360 734 4280 ▸ **FAX** 360 734 4893
larsongross.com
Bellingham
Burlington
Lynden

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, 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, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter
Report on Summarized Comparative Information
We have previously audited Childcare Worldwide's 2014 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
January 27, 2016

Childcare Worldwide

Combined Statement of Financial Position

September 30, 2015

(With Summarized Comparative Totals for September 30, 2014)

Assets

	2015	2014
Cash and cash equivalents	$ 1,467,500	$ 968,616
Receivables	5,240	28,225
Investments	177,735	173,765
Prepaid and other	40,182	11,046
Land, property, and equipment, net	509,813	769,305
Total assets	$ 2,200,470	$ 1,950,957

Liabilities and Net Assets

	2015	2014
Accounts payable	$ 80,408	$ 210,072
Accrued liabilities	37,553	38,282
Total liabilities	117,961	248,354
Net assets		
Unrestricted		
Board designated	63,395	43,195
Undesignated	1,208,500	1,070,134
Total unrestricted net assets	1,271,895	1,113,329
Temporarily restricted	810,614	589,274
Total net assets	2,082,509	1,702,603
Total liabilities and net assets	$ 2,200,470	$ 1,950,957

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

Childcare Worldwide

Combined Statement of Activities

Year Ended September 30, 2015

(With Summarized Comparative Totals for Year Ended September 30, 2014)

	2015	2014
Changes in unrestricted net assets		
Revenues		
Contributions	$ 3,277,522	$ 3,035,055
Gain on sale of land, property, and equipment	145,800	–
Investment income	8,971	18,547
Net assets released from restrictions	686,173	578,611
Total unrestricted revenues and other support	4,118,466	3,632,213
Expenses		
Program services		
International programs	2,868,689	2,873,156
Domestic programs	588,258	588,234
Total program services	3,456,947	3,461,390
Supporting activities		
Administration	95,390	102,047
Fundraising	345,969	315,974
Total supporting activities	441,359	418,021
Total expenses	3,898,306	3,879,411
Increase (decrease) in unrestricted net assets	220,160	(247,198)
Changes in temporarily restricted net assets		
Contributions	907,513	638,816
Net assets released from restrictions	(686,173)	(578,611)
Increase in temporarily restricted net assets	221,340	60,205
Increase (decrease) in net assets	441,500	(186,993)
Foreign currency translation adjustment	(61,594)	(277)
Net assets - beginning of year	1,702,603	1,856,686
Contribution of assets by affiliate	–	33,187
Net assets - end of year	$ 2,082,509	$ 1,702,603

Childcare Worldwide

Combined Statement of Functional Expenses by Natural Classification

Year Ended September 30, 2015

(With Summarized Comparative Totals for Year Ended September 30, 2014)

	Program Services				Supporting Services			
	International Programs	Domestic Programs	Total 2015	Total 2014	Administration	Fundraising	Total 2015	Total 2014
Children's program	$ 1,710,640	$ –	$ 1,710,640	$ 1,509,818	$ –	$ –	$ –	$ –
Salaries and benefits	834,295	354,524	1,188,819	1,121,752	51,747	136,407	188,154	226,436
Other ministry	126,415	145,452	271,867	279,576	12,618	148,938	161,556	119,090
Travel	67,650	44,044	111,694	177,110	–	4,056	4,056	6,893
Utilities, rent, and building maintenance	53,859	19,468	73,327	76,302	7,787	19,468	27,255	26,536
Supplies, printing, and postage	19,397	16,050	35,447	33,762	9,645	16,613	26,258	20,559
Depreciation	30,715	–	30,715	35,196	10,105	–	10,105	6,573
Miscellaneous	13,951	8,720	22,671	21,676	3,488	8,720	12,208	9,672
Outside services	11,767	–	11,767	2,261	–	11,767	11,767	2,262
Loss on sale of land, property, and equipment	–	–	–	203,937	–	–	–	–
	$ 2,868,689	$ 588,258	$ 3,456,947	$ 3,461,390	$ 95,390	$ 345,969	$ 441,359	$ 418,021

Childcare Worldwide

Combined Statement of Cash Flows

Year Ended September 30, 2015

(With Summarized Comparative Totals for Year Ended September 30, 2014)

	2015	2014
Cash flows from operating activities		
Increase (decrease) in net assets	$ 441,500	$ (186,993)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	40,820	41,769
(Gain) loss on sale of land, property, and equipment	(145,590)	205,512
Net unrealized gain on investments	(3,869)	(13,932)
Reinvested interest income	(101)	(218)
(Increase) decrease in assets		
Receivables	22,985	(9,234)
Prepaid and other	(29,136)	2,982
Increase (decrease) in liabilities		
Accounts payable	(129,664)	49,329
Accrued liabilities	(729)	(8,649)
Net cash provided by operating activities	196,216	80,566
Cash flows from investing activities		
Proceeds on sale of land, property, and equipment	304,744	–
Purchase of equipment	(78,594)	(58,727)
Net cash provided by (used in) investing activities	226,150	(58,727)
Net increase in cash and cash equivalents	422,366	21,839
Effect of exchange rates on foreign currency translation	76,518	27,860
Cash and cash equivalents - beginning of year	968,616	918,917
Cash and cash equivalents - end of year	$ 1,467,500	$ 968,616
Supplemental Disclosures of Cash Flow Information		
Noncash investing and financing activities:		
Contribution of assets by affiliate	$ –	$ 33,187

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, Philippines, 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.

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 SILOE – 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 presentation – The Organization reports information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. The Organization does not have any permanently restricted net assets at either September 30, 2015 or 2014.

Cash equivalents – The Organization considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Receivables – Receivables are recorded in the Organization's combined statement of financial position at their gross value. The Organization considers all receivables to be collectible; therefore, no allowance for doubtful accounts has been established. Management of the Organization determines which accounts receivable to write off based upon the aging of the receivable and the likelihood that the debtor will repay the amount owed. Accounts receivable are considered past due based upon how recently the last payment has been received, unless the Organization has made other payment options available to the debtor. The Organization does not accrue finance charges on any portion of its accounts receivable.

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 $40,820 and $41,769 for the years ended September 30, 2015 and 2014, respectively.

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

Contributions – Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. Contributions other than cash contributions are recorded at estimated fair value at the date donated.

Gifts-in-kind – Donations of services 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. In addition, the recognition of donated goods revenue is limited to donations where the Organization takes possession or constructive title of the donated goods and the Organization is involved in partnership with the end-user agency. Donated goods expense is recorded when the goods are distributed for program use. There was no amount recorded for gifts-in-kind for the year ended September 30, 2015.

Federal income tax – Childcare Worldwide is a non-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income tax except for federal income taxes payable on income derived from unrelated business activities. At September 30, 2015, 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 statements of activities.

Concentration of credit risk – Childcare Worldwide maintains cash balances primarily in two financial institutions. At September 30, 2015, cash deposits of approximately $570,000 were in excess of the amount insured by the National Credit Union Administration (NCUA).

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 financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 27, 2016, the date the combined financial statements were available to be issued.

Note 2 – Land, Property, and Equipment

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

	2015	2014
Buildings and improvements	$ 414,251	$ 678,449
Automobiles	141,118	162,366
Office equipment	121,729	94,578
Land	54,406	90,258
Other	21,904	23,578
	753,408	1,049,229
Less accumulated depreciation and amortization	(243,595)	(279,924)
	$ 509,813	$ 769,305

Note 3 – Restrictions on Net Assets

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

	2015	2014
International programs and other	$ 650,277	$ 431,801
Pledges for child sponsorship and operations	160,337	157,473
	$ 810,614	$ 589,274

Note 4 – Leases

The Organization leases its premises under an operating lease which expires July 31, 2017. The lease has a renewal option for five additional years. Monthly base lease payments totaled $4,974 and $4,877 for the years ending September 30, 2015 and 2014, respectively.

Future minimum lease payments under this operating lease are as follows for the year ending September 30:

2016	$ 59,892
2017	50,739
	$ 110,631

Total rent expense for the years ended September 30, 2015 and 2014 totaled $65,648 and $64,136, respectively.

Note 5 – 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:

	2015	2014
Kenya	$ 388,247	$ 332,443
Uganda	299,751	305,999
India	42,072	27,092
Haiti	29,355	45,358
Peru	1,513	15,511
	$ 760,938	$ 726,403

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

	2015	2014
Foreign affiliates	$ 760,938	$ 726,403
United States	1,321,571	976,200
	$ 2,082,509	$ 1,702,603

Note 6 – Fair Value Measurements

ASC 820, Fair *Value Measurement*, 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 and significant to the fair value measurement.

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, 2015 and 2014, all investments are measured using level 1 inputs based on quoted prices in active markets for identical assets.

Note 6 – Fair Value Measurements – (Continued)

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, 2015 and 2014.

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

	2015			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 105,426	$ –	$ –	$ 105,426
Equity securities - Technology	43,375	–	–	43,375
Mutual funds - US government bond	15,371	–	–	15,371
Mutual funds - Large cap value	7,789	–	–	7,789
Equity securities - Retail	5,774	–	–	5,774
	$ 177,735	$ –	$ –	$ 177,735

	2014			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 105,220	$ –	$ –	$ 105,220
Equity securities - Technology	45,433	–	–	45,433
Mutual funds - US government bond	15,406	–	–	15,406
Mutual funds - Large cap value	7,706	–	–	7,706
	$ 173,765	$ –	$ –	$ 173,765

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, 2015, there were no significant transfers in or out of Level 3.