Childcare Worldwide

Combined Financial Statements with
Independent Auditor's Report

Year Ended September 30, 2016
(with Summarized Comparative Totals
for the Year Ended September 30, 2015)

Larson Gross

Childcare Worldwide

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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, 2016, 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 Childcare Worldwide-Peru, related foreign affiliates, which statements reflect total assets and revenue constituting 40% 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.

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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, 2016, 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 2015 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
January 31, 2017

Childcare Worldwide

Combined Statement of Financial Position

September 30, 2016

(With Summarized Comparative Totals for September 30, 2015)

Assets

	2016	2015
Cash and cash equivalents	$ 1,367,806	$ 1,467,500
Investments	192,446	177,735
Prepaid and other	36,139	45,422
Land, property, and equipment, net	651,537	509,813
Total assets	$ 2,247,928	$ 2,200,470

Liabilities and Net Assets

	2016	2015
Accounts payable	$ 147,963	$ 80,408
Accrued liabilities	44,955	37,553
Total liabilities	192,918	117,961
Net assets		
Unrestricted		
Board designated	78,395	63,395
Undesignated	1,333,545	1,208,500
Total unrestricted net assets	1,411,940	1,271,895
Temporarily restricted	643,070	810,614
Total net assets	2,055,010	2,082,509
Total liabilities and net assets	$ 2,247,928	$ 2,200,470

Childcare Worldwide

Combined Statement of Activities

Year Ended September 30, 2016

(With Summarized Comparative Totals for Year Ended September 30, 2015)

	2016	2015
Changes in unrestricted net assets		
Revenue		
Contributions	$ 4,021,244	$ 3,277,522
Gain (loss) on sale of land, property, and equipment	(16,414)	145,800
Investment return	20,334	8,971
Net assets released from restrictions	399,491	686,173
Total unrestricted revenue and support	4,424,655	4,118,466
Expenses		
Program services		
International programs	3,039,950	2,868,689
Domestic programs	760,365	588,258
Total program services	3,800,315	3,456,947
Supporting activities		
Administration	137,640	95,390
Fundraising	394,611	345,969
Total supporting activities	532,251	441,359
Total expenses	4,332,566	3,898,306
Increase in unrestricted net assets	92,089	220,160
Changes in temporarily restricted net assets		
Contributions	231,947	907,513
Net assets released from restrictions	(399,491)	(686,173)
Increase (decrease) in temporarily restricted net assets	(167,544)	221,340
Increase (decrease) in net assets	(75,455)	441,500
Foreign currency translation adjustment	47,956	(61,594)
Net assets - beginning of year	2,082,509	1,702,603
Net assets - end of year	$ 2,055,010	$ 2,082,509

Childcare Worldwide

Combined Statement of Functional Expenses by Natural Classification

Year Ended September 30, 2016

(With Summarized Comparative Totals for Year Ended September 30, 2015)

	Program Services				Supporting Services			
	International Programs	Domestic Programs	Total 2016	Total 2015	Administration	Fundraising	Total 2016	Total 2015
Children's program	$ 1,900,853	$ –	$ 1,900,853	$ 1,710,640	$ –	$ –	$ –	$ –
Salaries and benefits	790,250	496,382	1,286,632	1,188,819	55,364	138,411	193,775	188,154
Other ministry	129,064	126,006	255,070	271,867	11,988	180,404	192,392	161,556
Travel	94,020	82,014	176,034	111,694	–	8,567	8,567	4,056
Utilities, rent, and building maintenance	56,281	20,028	76,309	73,327	8,011	20,028	28,039	27,255
Supplies, printing, and postage	20,952	25,681	46,633	35,447	7,764	16,462	24,226	26,258
Depreciation	32,124	–	32,124	30,715	29,927	–	29,927	10,105
Miscellaneous	16,406	10,254	26,660	22,671	4,102	10,254	14,356	12,208
Outside services	–	–	–	11,767	20,484	20,485	40,969	11,767
	$ 3,039,950	$ 760,365	$ 3,800,315	$ 3,456,947	$ 137,640	$ 394,611	$ 532,251	$ 441,359

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

Childcare Worldwide

Combined Statement of Cash Flows

Year Ended September 30, 2016

(With Summarized Comparative Totals for Year Ended September 30, 2015)

	2016	2015
Cash flows from operating activities		
Increase (decrease) in net assets	$ (75,455)	$ 441,500
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	62,051	40,820
(Gain) loss on sale of land, property, and equipment	16,414	(145,590)
Net unrealized gain on investments	(14,711)	(3,970)
(Increase) decrease in assets		
Prepaid and other	9,283	(6,151)
Increase (decrease) in liabilities		
Accounts payable	67,555	(129,664)
Accrued liabilities	7,402	(729)
Net cash provided by operating activities	72,539	196,216
Cash flows from investing activities		
Proceeds from sale of land, property, and equipment	6,393	304,744
Purchase of property and equipment	(194,194)	(78,594)
Net cash provided (used) by investing activities	(187,801)	226,150
Net increase (decrease) in cash and cash equivalents	(115,262)	422,366
Effect of exchange rates on foreign currency translation	15,568	76,518
Cash and cash equivalents - beginning of year	1,467,500	968,616
Cash and cash equivalents - end of year	$ 1,367,806	$ 1,467,500

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 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, 2016 or 2015.

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.

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.

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

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 $62,051 and $40,820 for the years ended September 30, 2016 and 2015, 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.*

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.

Federal income tax – The Organization is a nonprofit 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.

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

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 31, 2017, 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.

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, 2016 and 2015, 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, 2016 and 2015.

Note 2 – Fair Value Measurements – (Continued)

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

	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

	2015			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 105,426	$ –	$ –	$ 105,426
Equity securities	49,149	–	–	49,149
Mutual funds	23,160	–	–	23,160
	$ 177,735	$ –	$ –	$ 177,735

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, 2016, there were no significant transfers in or out of Level 3.

Note 3 – Land, Property, and Equipment

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

	2016	2015
Buildings and improvements	$ 459,738	$ 414,251
Automobiles	271,988	141,118
Office equipment	127,402	121,729
Land	64,340	54,406
Other	22,047	21,904
	945,515	753,408
Less accumulated depreciation and amortization	(293,978)	(243,595)
	$ 651,537	$ 509,813

Note 3 – Land, Property, and Equipment – (Continued)

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

	2016	2015
Foreign affiliates	$ 518,806	$ 469,184
United States	132,731	40,629
	$ 651,537	$ 509,813

Note 4 – Restrictions on Net Assets

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

	2016	2015
International programs and other	$ 469,180	$ 650,277
Pledges for child sponsorship and operations	173,890	160,337
	$ 643,070	$ 810,614

Note 5 – 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. As described in Note 7, the Organization intends to relocate its U.S. operation and, therefore, does not expect to exercise its optional five-year extension. Monthly base lease payments totaled $5,074 and $4,974 for the years ending September 30, 2016 and 2015, respectively.

Future minimum lease payments under this operating lease total $50,739 for the year ending September 30, 2017.

Total rent expense for the years ended September 30, 2016 and 2015 totaled $67,137 and $65,648, respectively.

Note 6 – 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:

	2016	2015
Kenya	$ 418,215	$ 388,247
Uganda	350,507	299,751
Peru	36,752	1,513
Haiti	22,895	29,355
India	18,559	42,072
	$ 846,928	$ 760,938

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

	2016	2015
Foreign affiliates	$ 846,928	$ 760,938
United States	1,208,082	1,321,571
	$ 2,055,010	$ 2,082,509

Note 7 – Subsequent Events

In November 2016, the Organization purchased the land and 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 land at the time of purchase of $450,000, which will be recognized as a non-cash contribution in the year of purchase.

The intent of this purchase is to relocate the Organization's U.S. operations. The purchase is being funded primarily through debt issuance. The Organization borrowed $1,080,000 from Peoples Bank. The remaining purchase price was financed through the Organization's cash on hand.