Childcare Worldwide and Affiliates

Combined Financial Statements with
Independent Auditor's Report

Year Ended September 30, 2019
(with Summarized Comparative Totals
for the Year Ended September 30, 2018)

Larson Gross

Childcare Worldwide and Affiliates

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Larson Gross

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 and Affiliates, which comprise the combined statement of financial position as of September 30, 2019, 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 of $482,521 and $7,211, respectively, as of and for the year ended September 30, 2019. 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 the related foreign affiliates, is based solely on the reports 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

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

Bellingham
Burlington
Lynden

Opinion
In our opinion, based on our audit and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Childcare Worldwide and affiliates as of September 30, 2019, 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.

Emphasis of Matter
As discussed in Note 1 to the financial statements, during the year ended September 30, 2019, Childcare Worldwide adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *"Not-for-Profits Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities."* The update addresses the complexity and understandability of net assets restrictions, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information
We have previously audited Childcare Worldwide and affiliates' 2018 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
February 11, 2020

Childcare Worldwide and Affiliates

Combined Statement of Financial Position

September 30, 2019

(With Summarized Comparative Totals for September 30, 2018)

	2019	2018
Assets		
Cash and cash equivalents	$ 1,393,116	$ 1,344,779
Certificate of deposit	-	106,092
Prepaid and other	50,776	75,251
Land, property, and equipment, net	2,293,773	2,392,553
Total assets	$ 3,737,665	$ 3,918,675
Liabilities and Net Assets		
Accounts payable	$ 88,792	$ 132,539
Accrued liabilities	19,979	70,787
Deferred compensation	188,000	199,000
Note payable	1,003,460	1,027,786
Total liabilities	1,300,231	1,430,112
Net assets		
Without donor restrictions		
Board designated	95,395	131,395
Undesignated	1,896,196	1,738,370
Total without donor restrictions	1,991,591	1,869,765
With donor restrictions	445,843	618,798
Total net assets	2,437,434	2,488,563
Total liabilities and net assets	$ 3,737,665	$ 3,918,675

Childcare Worldwide and Affiliates

Combined Statement of Activities

Year Ended September 30, 2019

(With Summarized Comparative Totals for Year Ended September 30, 2018)

	2019	2018
Changes in net assets without donor restrictions		
Revenue		
Contributions	$ 3,993,213	$ 4,315,126
Other income	27,845	5,783
Loss on sale of land, property, and equipment	(2,709)	(126,495)
Net assets released from restrictions	305,690	142,316
Total revenue and support without donor restrictions	4,324,039	4,336,730
Expenses		
Program services		
International programs	3,110,869	3,121,932
Domestic programs	338,877	590,992
Total program services	3,449,746	3,712,924
Supporting activities		
Administration	394,617	272,798
Fundraising	372,899	321,995
Total supporting activities	767,516	594,793
Total expenses	4,217,262	4,307,717
Increase in net assets without donor restrictions	106,777	29,013
Changes in net assets with donor restrictions		
Contributions	132,735	238,199
Net assets released from restrictions	(305,690)	(142,316)
Increase (decrease) in net assets with donor restrictions	(172,955)	95,883
Increase (decrease) in net assets	(66,178)	124,896
Foreign currency translation adjustment	15,049	621
Net assets – beginning of year	2,488,563	2,363,046
Net assets – end of year	$ 2,437,434	$ 2,488,563

Childcare Worldwide and Affiliates

Combined Statement of Functional Expenses

Year Ended September 30, 2019

(With Summarized Comparative Totals for Year Ended September 30, 2018)

	Program Services			Supporting Services			Totals	
	International Programs	Domestic Programs	Total	Administration	Fundraising	Total	2019	2018
Children's program	$ 1,712,764	$ -	$ 1,712,764	$ -	$ -	$ -	$ 1,712,764	$ 1,622,759
Salaries and benefits	957,854	233,573	1,191,427	165,311	181,868	347,179	1,538,606	1,542,067
Other ministry	94,094	69,212	163,306	36,304	158,710	195,014	358,320	584,051
Travel	134,126	30,789	164,915	1,873	6,819	8,692	173,607	130,730
Depreciation and amortization	20,235	-	20,235	81,060	-	81,060	101,295	110,289
Supplies, printing, and postage	69,999	849	70,848	14,371	24,219	38,590	109,438	47,528
Utilities, rent, and building maintenance	65,484	-	65,484	73,602	-	73,602	139,086	202,478
Outside services	40,968	-	40,968	13,251	-	13,251	54,219	49,011
Miscellaneous	15,345	4,454	19,799	8,845	1,283	10,128	29,927	18,804
	$ 3,110,869	$ 338,877	$ 3,449,746	$ 394,617	$ 372,899	$ 767,516	$ 4,217,262	$ 4,307,717

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

Childcare Worldwide and Affiliates

Combined Statement of Cash Flows

Year Ended September 30, 2019

(With Summarized Comparative Totals for Year Ended September 30, 2018)

	2019	2018
Cash flows from operating activities		
Increase (decrease) in net assets	$ (66,178)	$ 124,896
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	101,295	110,289
Loss on sale of land, property, and equipment	2,709	126,495
(Increase) decrease in assets		
Prepaid and other	24,475	(41,080)
Increase (decrease) in liabilities		
Accounts payable	(43,747)	11,679
Accrued liabilities	(50,808)	17,990
Deferred compensation	(11,000)	46,000
Net cash provided (used) by operating activities	(43,254)	396,269
Cash flows from investing activities		
Changes in certificate of deposit	106,092	1,482
Proceeds from sale of land, property, and equipment	1,160	-
Purchase of property and equipment	(4,849)	(92,721)
Net cash provided (used) by investing activities	102,403	(91,239)
Cash flows from financing activities		
Repayments and issuance costs of note payable	(24,326)	(23,007)
Net cash used by financing activities	(24,326)	(23,007)
Net increase in cash and cash equivalents	34,823	282,023
Effect of exchange rates on foreign currency translation	13,514	5,900
Cash and cash equivalents – beginning of year	1,344,779	1,056,856
Cash and cash equivalents – end of year	$ 1,393,116	$ 1,344,779
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 53,228	$ 50,553

Note 1 – Summary of Significant Accounting Policies

Organizations – Childcare Worldwide, a Washington State nonprofit 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.

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 (collectively, "the Affiliates"). Childcare Worldwide and the Affiliates are collectively referred to as "the Organization." 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:

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

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

Cash and cash equivalents – Cash and cash equivalents consist of checking and money market accounts and for purposes of 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. The Organization 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.

Certificates of Deposit – Certificates of deposit are recorded at cost plus accrued interest.

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

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

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

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying 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 and have been allocated on a reasonable basis that is consistently applied. The Organization allocates expenses on the functional basis by the percentage of department payroll per month compared to total payroll for each functional classification.

Federal income tax – Childcare Worldwide is a non-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions. The Affiliates are either recognized or seeking recognition as charities or the equivalent in their respective countries of origin.

Foreign currency translation – The functional currency of the Affiliates 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 affiliates' financial statements are reported as a component of net assets without donor restrictions. 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.

New accounting pronouncement – In August of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, "Not-for-Profits Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities." The amendments provided by this update address the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for fiscal years beginning after December 15, 2017 and was applied retrospectively to all periods presented.

Subsequent events – In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 11, 2020, the date the combined financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of September 30, 2019, consist of the following:

Cash and cash equivalents	$ 1,393,116
Other assets	25,247
Less amounts not available for general expenditure	
Board-designated	(95,395)
Donor-restricted	(445,843)
	$ 877,125

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

The goal of the Organization is to maintain $475,000 in cash reserves as emergency funds. Cash reserves may be maintained in investment or money market accounts. The Organization had a balance of $1,078,346 in money market accounts as of September 30, 2019.

As of September 30, 2019, the Organization has working capital of $1,329,390 and average days (based on normal expenditures) cash on hand of 124.

Note 3 – Land, Property, and Equipment

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

	2019	2018
Buildings and improvements	$ 1,796,805	$ 1,794,494
Land	597,559	596,686
Automobiles	218,524	248,586
Office equipment	89,431	97,114
Other	721	721
	2,703,040	2,737,601
Less accumulated depreciation and amortization	(409,267)	(345,048)
	$ 2,293,773	$ 2,392,553

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

	2019	2018
United States	$ 1,977,833	$ 2,055,887
Foreign affiliates	315,940	336,666
	$ 2,293,773	$ 2,392,553

Depreciation expense totaled $100,263 and $109,868 for the years ended September 30, 2019 and 2018, respectively.

Note 4 – Deferred Compensation

The Organization has an unfunded post-retirement plan for the Organization's founder and former President/CEO, Dr. Max Lange (the Founder). Benefits of $3,000 per month are to be paid to the Founder or his spouse for the duration of their lives, to be continued through the life of whomever lives the longest. The Organization accrues the projected future costs of providing post-retirement benefits during the period that employees render the services necessary to be eligible for such benefits. The accrued deferred compensation from this arrangement is $188,000 and $199,000 as of September 30, 2019 and 2018. The discount rate used in determining the accrued deferred compensation was 2.07% and 2.45% at September 30, 2019 and 2018, respectively. $33,000 and $-0- in benefits were paid by the Organization during the years ended September 30, 2019 and 2018, respectively.

Note 4 – Deferred Compensation – (Continued)

The Founder retired effective October 31, 2018. Estimated future benefits to be paid are as follows for the years ending September 30:

2020	$ 35,300
2021	35,300
2022	35,300
2023	35,300
2024	35,300
Thereafter	11,500
	$ 188,000

Note 5 – Note Payable

In October 2016, the Organization obtained a 15-year note payable from a local financial institution to finance the purchase of land and an office building located in Bellingham, Washington and secured by the real property. Imbedded in the note payable is a rate conversion agreement to fix the interest rate on the remaining amount of the note at 4.73%. Prior to the rate conversion agreement, the variable interest rate on the note was based on one-month LIBOR plus 2.75%. The note requires monthly principal and interest payments totaling $6,193 with a final balloon payment for the remaining balance due in November 2031. The note payable consisted of the following at September 30:

	2019	2018
Note payable to financial institution	$ 1,013,031	$ 1,038,118
Less: Unamortized debt issuance costs	(9,571)	(10,332)
Note payable, less unamortized debt issuance costs	$ 1,003,460	$ 1,027,786

Amortization of the debt issuance costs totaled $761 and $421 for the years ended September 30, 2019 and 2018, respectively, and is reported as amortization expense in the combined statement of functional expenses. Interest expense for the year totaled $49,235 and $50,553 for the years ended September 30, 2019 and 2018, respectively.

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

2020	$ 26,183
2021	27,601
2022	28,954
2023	30,374
2024	31,743
Thereafter	868,176
	$ 1,013,031

Note 6 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	2019	2018
International programs and other	$ 244,559	$ 372,229
Pledges for child sponsorship and operations	201,284	246,569
	$ 445,843	$ 618,798

Note 7 – Leases

In November 2016, the Organization entered into a 5-year operating lease for office equipment. Monthly base lease payments totaled $849 for the year ended September 30, 2019, increasing approximately 6% each year. Rent expense totaled $10,207 and $9,665 for the years ended September 30, 2019 and 2018, respectively.

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

2020	$ 10,800
2021	10,494
	$ 21,294

Note 8 – 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:

	2019	2018
Uganda	$ 197,297	$ 144,945
Kenya	148,348	162,003
Peru	33,192	30,380
India	21,234	17,157
Haiti	21,225	21,096
	$ 421,296	$ 375,581

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

	2019	2018
United States	$ 2,016,138	$ 2,112,982
Foreign affiliates	421,296	375,581
	$ 2,437,434	$ 2,488,563

Note 9 – Prospective Accounting Change

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be adopted using either a full retrospective or modified retrospective approach. Application is required for annual periods beginning after December 15, 2018.

The Organization plans to adopt ASU 2014-09 effective October 1, 2019 using the modified retrospective method. Under this method, the new standard will be applied only to the most current period presented in the combined financial statements with the cumulative effect recognized as of the date of initial application. The Organization continues to evaluate the impact of the new accounting guidance on its combined financial statements and disclosures. The Organization's adoption of ASU 2014-09 is not anticipated to have a material impact on the results of operations or financial position; however, the Organization's assessment is not complete.

Note 10 – Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, "Leases" which requires lessees to record most leases with terms greater than 12 months on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is required for annual periods beginning after December 15, 2020. The Organization continues to evaluate the impact of the new accounting guidance on its combined financial statements.