Childcare Worldwide

Financial Statements with
Independent Auditor's Report

Year Ended December 31, 2021

Larson Gross

Childcare Worldwide

Contents

Independent Auditor's Report

To the Board of Directors
of Childcare Worldwide
Bellingham, Washington

Opinion
We have audited the accompanying financial statements of Childcare Worldwide (the Organization), which comprise the statement of financial position as of December 31, 2021 and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childcare Worldwide as of December 31, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Childcare Worldwide's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Childcare Worldwide's ability to continue as a going concern for a reasonable period of time.

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

Larson Gross PLLC

Bellingham, Washington
March 28, 2022

Childcare Worldwide

Statement of Financial Position

December 31, 2021

Assets		
Cash and cash equivalents	$	2,532,224
Investments		78,507
Prepaid and other		57,121
Property and equipment, net		26,507
Total assets	$	2,694,359
Liabilities and Net Assets		
Accounts payable	$	22,884
Accrued liabilities		30,843
Deferred compensation		174,000
Total liabilities		227,727
Net assets		
Without donor restrictions		
Board designated		174,000
Undesignated		1,424,049
Total without donor restrictions		1,598,049
With donor restrictions		868,583
Total net assets		2,466,632
Total liabilities and net assets	$	2,694,359

Childcare Worldwide

Statement of Activities

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	$ 3,323,969	$ 167,642	$ 3,491,611
Investment return	12,120	-	12,120
Satisfation of restrictions	610,744	(610,744)	-
Total support and revenue	3,946,833	(443,102)	3,503,731
Expenses			
Program services	2,528,250	-	2,528,250
Management and general	527,769	-	527,769
Fundraising	509,175	-	509,175
Total expenses	3,565,194	-	3,565,194
Loss on sale of property and equipment	(571,040)	-	(571,040)
Changes in net assets	(189,401)	(443,102)	(632,503)
Net assets – beginning of period	1,787,450	1,311,685	3,099,135
Net assets – end of period	$ 1,598,049	$ 868,583	$ 2,466,632

Childcare Worldwide

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Grants and other support to foreign ministries	$ 1,921,004	$ -	$ -	$ 1,921,004
Salaries and benefits	497,097	356,805	319,298	1,173,200
Professional services	1,183	57,277	40,760	99,220
Marketing and donor relations	3,588	16,635	67,367	87,590
Miscellaneous	36,091	20,612	30,620	87,323
Office overhead	16,128	40,527	19,280	75,935
Occupancy	21,810	17,816	11,294	50,920
Interest expense	14,464	8,282	9,079	31,825
Depreciation	14,689	7,060	7,454	29,203
Travel	2,196	2,755	4,023	8,974
Total functional expenses	$ 2,528,250	$ 527,769	$ 509,175	$ 3,565,194

Childcare Worldwide

Statement of Cash Flows

Year Ended December 31, 2021

Cash flows from operating activities		
Changes in net assets	$	(632,503)
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Depreciation		29,203
Loss on sale of property and equipment		571,040
Net unrealized gain on investments		(5,798)
Increase in assets		
Prepaid and other		(31,818)
Increase in liabilities		
Accounts payable		14,068
Accrued liabilities		3,955
Deferred compensation		3,000
Net cash used by operating activities		(48,853)
Cash flows from investing activities		
Proceeds from sale of property and equipment		1,279,317
Purchase of property and equipment		(16,500)
Purchases of investments		(65,837)
Net cash provided by investing activities		1,196,980
Cash flows from financing activities		
Repayments of note payable		(971,420)
Net cash used by financing activities		(971,420)
Net change in cash and cash equivalents		176,707
Cash and cash equivalents – beginning of period		2,355,517
Cash and cash equivalents – end of period	$	2,532,224
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$	31,825

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Childcare Worldwide (the Organization), a California nonprofit corporation, has administrative offices in Washington State and conducts ministry efforts internationally. The Organization provides support to affiliated organizations in foreign countries, including Kenya, Uganda, Haiti, Thailand, Peru, Sri Lanka, and India. The activities in these countries are centered upon our core mission of sharing the Gospel of Jesus Christ with needy children through our Life Center model. Life Centers are weekly meetings hosted by local churches in which children receive Bible teaching, are provided a nutritious meal, and benefit from the personal care and attention of their Life Center teachers. In conjunction with meeting spiritual needs we seek to meet the felt needs of the children in our care, and by extension their families and communities, through educational assistance, food, medical aid, shelter, clothing, water projects and other holistic support.

Basis of accounting – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; 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 cash flows are defined as all highly liquid investments with an initial maturity of three months or less. The Organization maintains cash and cash equivalent balances at various financial institutions. The accounts may exceed insured limits at times during the period. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

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

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of $2,500. Property and equipment 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 is recorded using the straight-line method over estimated useful lives of the assets, which range from 5 to 7 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 estimated 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 statement of activities and the 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 facilities-related expenses based on the square-footage of occupied offices and other allocated expenses based on actual logged or estimated usage per department.

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

Use of estimates – The preparation of 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 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 March 28, 2022, the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2021 consist of the following:

Cash and cash equivalents	$ 2,532,224
Investments	78,507
Less amounts not available for general expenditure	
Board-designated	(174,000)
Donor-restricted	(868,583)
	$ 1,568,148

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 $2,373,809 in money market accounts as of December 31, 2021.

As of December 31, 2021, the Organization has working capital of $2,575,225 and average days (based on normal expenditures) cash on hand of 264.

Note 3 – Property and Equipment

Property and equipment consist of the following at December 31, 2021:

Office equipment	$ 28,532
Other	17,221
	45,753
Less accumulated depreciation	(19,246)
	$ 26,507

Depreciation expense totaled $29,203 for the year ended December 31, 2021.

Note 4 – Investments and Fair Value Measurements

Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the 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:

Note 4 – Investments and Fair Value Measurements – (Continued)

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Equity and mutual funds:

Valued at the daily closing price as reported by the fund. Equity funds held by the Organization are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The equity funds held by the Organization are deemed to be actively traded.

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 have been no changes in the valuation methodologies used at December 31, 2021.

Investments at fair value consisted of the following as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Investments fair value hierarchy				
Equity funds	$ 58,174	$ -	$ -	$ 58,174
Mutual funds	20,333	-	-	20,333
Total	$ 78,507	$ -	$ -	$ 78,507

Note 4 – Investments and Fair Value Measurements – (Continued)

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market date is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another.

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 December 31, 2021, there were no transfers in or out of Level 3.

Note 5 – Deferred Compensation

The Organization has an unfunded post-retirement plan for the Organization's founder and former President/CEO, Dr. Max Lange (the Founder). Benefits of $3,000 per month are to be paid to the Founder or his spouse for the duration of their lives, to be continued through the life of whomever lives the longest. Effective January 1, 2022, the monthly payment was increased to $3,248. The Organization accrues the projected future costs of providing post-retirement benefits during the year that employees render the services necessary to be eligible for such benefits. The accrued deferred compensation from this arrangement totaled $174,000 as of December 31, 2021. The discount rate used in determining the accrued deferred compensation was .217% at December 31, 2021. Benefits totaling $36,000 were paid by the Organization during the year ended December 31, 2021.

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

2022	$ 38,900
2023	38,800
2024	38,700
2025	38,600
2026	19,000
	$ 174,000

Note 6 – Note Payable

The Organization had a 15-year note payable to finance the purchase of land and an office building located in Bellingham, Washington. In August 2021, the land and building were sold, and the note payable was paid in full. Interest expense totaled $31,825 for the year ended December 31, 2021. The Organization incurred a loss on the sale totaling $571,040.

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2021:

International programs and other	$	517,165
Pledges for child sponsorship and operations		351,418
	$	868,583

Note 8 – Operating Leases

On April 1, 2021, the Organization entered into a three-year lease for the use of office space in Lynden, Washington with a monthly payment of $3,200, increasing $300 each year.

The Organization leased a copy machine under an operating lease agreement. The agreement was for a period of five years. The agreement required a monthly payment of $954. This lease expired in June 2021. In June 2021, the Organization entered into an operating lease agreement for the use of office equipment. The lease agreement is for a period of five years and requires monthly payments of $283.

Future minimum annual lease payments are as follows for the years ending December 31:

2022	$	43,000
2023		48,000
2024		27,000
2025		3,000
2026		1,000
	$	122,000

Note 9 – Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases.* This guidance, as amended by subsequent ASU's on the topic, requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, are required. Application is required for annual periods beginning after December 15, 2021. The Organization expects to adopt this standard on January 1, 2022. While the Organization is still evaluating impact of the new accounting guidance on its financial statements, based on management's preliminary assessment, the Organization will record assets and liabilities for long-term operating leases currently included in Note 8 – Operating Leases.