



WORLD NEIGHBORS

Inspiring People • Strengthening Communities

AUDITED FINANCIAL STATEMENTS

June 30, 2015

Audited Financial Statements
WORLD NEIGHBORS, INC.
JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of World Neighbors, Inc.,
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of World Neighbors, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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, the financial statements referred to above present fairly, in all material respects, the financial position of World Neighbors, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and related notes, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the World Neighbors, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 20, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of World Neighbors, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering World Neighbors Inc.'s internal control over financial reporting and compliance.

HBC CPAs & Advisors

Oklahoma City, Oklahoma
March 28, 2016

WORLD NEIGHBORS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

ASSETS	2015	2014
Unrestricted cash and cash equivalents	\$ 96,893	\$ 83,670
Restricted cash and cash equivalents	236,243	278,614
Contributions receivable, net	192,927	246,463
Grants receivable, net	581,419	-
Federal funds receivable	16,098	11,878
Investments	4,127,488	4,360,130
Investments held in trusts	987,310	1,009,142
Beneficial interest in remainder trusts	1,726,093	1,719,182
Land, building and equipment, net	503,141	486,014
Beneficial interest in assets held by others	35,135	33,571
Other assets	67,941	54,386
TOTAL ASSETS	<u>\$ 8,570,688</u>	<u>\$ 8,283,050</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 19,011	\$ 16,919
Federal funds payable	19,963	-
Accrued liabilities	31,057	24,817
Amounts payable under gift annuities	906,533	967,310
Amounts payable under split-interest trust agreements	205,986	210,664
TOTAL LIABILITIES	<u>1,182,550</u>	<u>1,219,710</u>
NET ASSETS:		
Unrestricted	397,720	383,968
Temporarily restricted	4,193,854	3,882,808
Permanently restricted	2,796,564	2,796,564
TOTAL NET ASSETS	<u>7,388,138</u>	<u>7,063,340</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,570,688</u>	<u>\$ 8,283,050</u>

See accompanying notes.

WORLD NEIGHBORS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 1,011,083	\$ -	\$ -	\$ 1,011,083	\$ 799,869
Subsidy from parent, net	1,246,728	-	-	1,246,728	1,055,301
Federal funds	537,655	-	-	537,655	154,643
Grants	-	1,402,001	-	1,402,001	264,842
Investment income (losses)	225,374	(236)	-	225,138	169,706
Net investment (losses) gains	(294)	(197,670)	-	(197,964)	412,579
Change in value of split-interest agreements	-	21,294	-	21,294	119,106
Gain on sale of assets	-	-	-	-	644,549
Other income	65,708	-	-	65,708	80,353
Net assets released from restrictions and transfers	914,343	(914,343)	-	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	4,000,597	311,046	-	4,311,643	3,700,948
EXPENSES					
Program services:					
Field program	2,888,571	-	-	2,888,571	2,359,166
Public education	299,530	-	-	299,530	232,137
Supporting activities:					
Management and general	303,896	-	-	303,896	284,013
Fundraising	494,848	-	-	494,848	418,911
TOTAL EXPENSES	3,986,845	-	-	3,986,845	3,294,227
CHANGE IN NET ASSETS	13,752	311,046	-	324,798	406,721
NET ASSETS, BEGINNING OF YEAR	383,968	3,882,808	2,796,564	7,063,340	6,656,619
NET ASSETS, END OF YEAR	\$ 397,720	\$ 4,193,854	\$ 2,796,564	\$ 7,388,138	\$ 7,063,340

See accompanying notes.

WORLD NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)

	Program Services			Supporting Activities			Total FY2015	Total FY2014
	Field Program	Public Education	Total Program Services	Management and General	Fundraising	Total Supporting Activities		
Salaries and related expenses:								
Salaries	\$ 995,142	\$ 120,434	\$ 1,115,576	\$ 165,313	\$ 213,565	\$ 378,878	\$ 1,494,454	\$ 1,304,499
Payroll taxes	42,832	5,461	48,293	11,802	14,317	26,119	74,412	56,178
Benefits	161,235	19,038	180,273	17,237	13,558	30,795	211,068	199,046
	<u>1,199,209</u>	<u>144,933</u>	<u>1,344,142</u>	<u>194,352</u>	<u>241,440</u>	<u>435,792</u>	<u>1,779,934</u>	<u>1,559,723</u>
Field program	1,044,500	-	1,044,500	-	-	-	1,044,500	545,399
Disaster relief	63,195	-	63,195	-	-	-	63,195	-
Contract services	18,344	8,063	26,407	3,705	78,816	82,521	108,928	130,773
Legal and accounting services	34,832	4,418	39,250	14,782	4,299	19,081	58,331	89,127
Recruitment	-	-	-	-	-	-	-	84,847
Travel	170,123	44,256	214,379	22,121	46,409	68,530	282,909	218,103
Office supplies	39,301	9,816	49,117	2,713	6,596	9,309	58,426	33,320
Telephone	26,066	6,590	32,656	1,340	1,517	2,857	35,513	44,673
Postage	2,162	681	2,843	372	4,343	4,715	7,558	8,462
Rent and occupancy	166,013	41,420	207,433	976	1,368	2,344	209,777	197,971
Office equipment and software	11,030	1,817	12,847	5,368	14,777	20,145	32,992	36,671
In-kind advertising	-	22,425	22,425	11,213	78,488	89,701	112,126	121,057
Printing and publications	12,321	3,141	15,462	102	1,660	1,762	17,224	25,616
Depreciation	35,662	-	35,662	30,276	7,913	38,189	73,851	53,509
Dues	3,653	1,025	4,678	2,020	2,406	4,426	9,104	10,809
Training and meetings	31,139	7,809	38,948	460	495	955	39,903	67,962
Financial expenses	31,021	3,136	34,157	14,096	4,321	18,417	52,574	66,205
Total expenses	<u>\$ 2,888,571</u>	<u>\$ 299,530</u>	<u>\$ 3,188,101</u>	<u>\$ 303,896</u>	<u>\$ 494,848</u>	<u>\$ 798,744</u>	<u>\$ 3,986,845</u>	<u>\$ 3,294,227</u>

See accompanying notes.

WORLD NEIGHBORS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)

	2015	2014
OPERATING ACTIVITIES		
Changes in net assets	\$ 324,798	\$ 406,721
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	73,851	53,509
Net gain on disposition of assets	-	(644,549)
Net unrealized and realized gains/losses on investments	35,724	(472,138)
Changes in operating assets and liabilities:		
Contributions receivable	53,536	213,214
Grants receivable	(581,419)	227,184
Federal funds receivable	(4,220)	50,370
Investments held in trusts	21,832	(77,260)
Beneficial interest in trusts	(6,911)	(125,201)
Other assets	(13,555)	504
Beneficial interest in assets held by others	(1,564)	(2,743)
Accounts payable and accrued expenses	28,295	(47,872)
Amounts payable under charitable gift annuities	(60,777)	(52,196)
Obligations under split- interest agreements	(4,678)	8,839
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(135,088)</u>	<u>(461,618)</u>
INVESTING ACTIVITIES		
Purchases of investments	(992,860)	(1,196,782)
Proceeds from sales of investments	1,189,778	922,548
Proceeds from disposition of property	-	871,525
Purchase of fixed assets	(90,978)	(39,493)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>105,940</u>	<u>557,798</u>
FINANCING ACTIVITIES		
Repayment of borrowings	-	(500,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>-</u>	<u>(500,000)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(29,148)	(403,820)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>362,284</u>	<u>766,104</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 333,136</u>	<u>\$ 362,284</u>
RECONCILIATION OF CASH:		
Unrestricted cash and cash equivalents	\$ 96,893	\$ 83,670
Restricted cash and cash equivalents	236,243	278,614
	<u>\$ 333,136</u>	<u>\$ 362,284</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

World Neighbors, Inc. (“World Neighbors” or the “Organization”) is an international development organization striving to eliminate hunger, poverty and disease in the most deprived rural villages in Latin America and the Caribbean, South Asia, South East Asia and Africa. World Neighbors invests in people and their communities by training and inspiring them to create their own life-changing solutions through programs that combine agriculture, literacy, water, health and environmental protection. Since 1951, more than 26 million people in 45 countries have transformed their lives with the support of World Neighbors. World Neighbors is headquartered in Oklahoma City, Oklahoma and has nine field offices, which oversee the Organization’s program work, located in Latin America and the Caribbean (Bolivia, Guatemala, Haiti and Peru), South Asia (India and Nepal), South East Asia (Indonesia and Timor-Leste) and Africa (Burkina Faso, Kenya, Mali, Tanzania and Uganda).

Effective March 1, 2013, World Neighbors and Feed the Children, Inc. (“Feed the Children”) entered into an affiliation agreement with the goal of building on existing programs and organizations to enhance each organization’s charitable mission. In order to maximize administrative efficiencies, Feed the Children will provide support services to World Neighbors as Feed the Children deems necessary, including human resources, finance, information technology, resource development, marketing and communications and other administrative support; including office space in its Oklahoma City facility. This agreement may be terminated at any time at the sole discretion of Feed the Children.

Both organizations remain stand-alone nonprofit organizations with separate boards of trustees, operations and staff; however, under the agreement, Feed the Children became the sole member of World Neighbors.

In its capacity as sole member of World Neighbors and pursuant to World Neighbors amended and restated bylaws (effective February 6, 2013), Feed the Children has the right to appoint or remove World Neighbors Board of Trustees. World Neighbors Board of Trustees may not do any of the following without first obtaining written approval from Feed the Children: a) approve the annual budget; b) amend, restate or repeal the Certificate of Incorporation or the bylaws; c) appoint members to the board of trustees; d) merge or consolidate with or into any other entity, sell substantially all of its assets, or approve the acquisition of World Neighbors by another entity; e) dissolve, liquidate or terminate the business of World Neighbors; f) change the purpose of World Neighbors; and g) make a decision to file a voluntary petition under any law having for its purpose the adjudication of World Neighbors as bankrupt or insolvent or take any action with respect to the reorganization or liquidation of World Neighbors.

Basis of accounting: The financial statements of World Neighbors have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other assets and liabilities.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of presentation: The Organization is required to report 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.

Cash and cash equivalents: For the purpose of the Statement of Financial Position and the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for such instruments purchased with contributions with donor-imposed restrictions limiting their use to long-term purposes, which are classified as investments. The carrying amount approximates fair value.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received by World Neighbors. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises which are received by World Neighbors prior to fulfilling these conditions are recorded as a liability until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using federal funds (risk-free) interest rates. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contribution revenue. When the donor restriction on these contributions is met, and/or the implied time restriction has expired, the net assets are released from restriction in the Statement of Activities.

Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

John L. Peters Society Founders' pledges and bequest contributions are unrestricted for the operations of World Neighbors, unless specifically restricted by the donor. Grants for programs are temporarily restricted for support of specific programs. Endowment pledges received are permanently restricted to be invested as part of the World Neighbors endowment.

Donated assets: Marketable securities and other noncash donations are recorded as contributions, on the date of the donation, at their fair values.

Expense allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Marketable securities and investment income: Marketable securities are stated at fair value. Fair values are generally determined based on quoted market prices or estimates provided by external investment managers. Realized gains and losses on sales of marketable securities are computed on the first-in, first-out basis.

The majority of marketable securities are combined in common investment pools and invested on the basis of a total return policy to provide income and improve opportunities to realize appreciation in investment values. Realized and unrealized gains and losses from securities in the investment pool are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the investment pool, as adjusted for additions to or deductions from those accounts.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment, or applicable laws, require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift, or applicable law, impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases.

Generally, losses on investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets.

Property, plant and equipment: Acquisitions of property, plant and equipment in excess of \$1,000 are capitalized. Property, plant and equipment are stated at cost at acquisition. Donations of property, plant and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, World Neighbors reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. World Neighbors reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation is based on the estimated useful life of the asset using the straight-line method.

World Neighbors records impairments of its property, plant and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their net realizable value

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

determined by management based on facts and circumstances at the time of the determination. No property, plant or equipment impairments were recorded in the current year.

Beneficial interest in remainder trusts: Beneficial interest in remainder trusts represent the amounts held under irrevocable charitable remainder trust agreements between donors and third party trustees. World Neighbors interest in these trusts is recorded at fair value. Fair value is based on the expected future cash receipts from the trusts or, in some cases, the fair value of the assets contributed to the trust. The amounts World Neighbors will ultimately realize could differ materially and significant fluctuations in fair values could occur from year to year.

Advertising: All costs associated with advertising are expensed as incurred.

Split-interest agreements: World Neighbors split-interest agreements with donors consist of irrevocable charitable remainder trusts for which World Neighbors serves as trustee. Liabilities to the lead beneficiaries of these trusts are included in amounts payable under split-interest trust agreements in the Statement of Financial Position. World Neighbors also administers numerous charitable gift annuities. Liabilities to the lead beneficiaries of these agreements are included in amounts payable under gift annuities in the Statement of Financial Position.

Use of estimates: The preparation of financial statements in conformity with Generally Accepted Accounting Principles of the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Significant estimates: Estimates that are particularly susceptible to significant change include the valuation of investments, investments held in trusts, beneficial interest in remainder trusts and contributions receivable. Investments and beneficial interest, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position. Significant fluctuations in fair values could occur from year to year and the amounts World Neighbors will ultimately realize could differ materially. Management’s estimate of investments, beneficial interest and contributions receivable is based on consideration of all relevant available information and an analysis of the collectibility of contributions receivable, which arise primarily from pledges, trusts and estates at the financial statement date.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes: World Neighbors is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code.

World Neighbors evaluates and accounts for its uncertain tax positions, if any, in accordance with current accounting guidance, including the Organization's tax position as a tax-exempt, not-for-profit entity. Through the Organization's evaluation of its uncertain tax positions, management has determined no uncertain tax positions exist as of June 30, 2015 and 2014 which would require the Organization to record a liability for the uncertain tax positions in its financial statements. The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ended June 30, 2012, 2013 and 2014 are subject to examination by the Internal Revenue Service generally for three years after they were filed.

Prior Year Information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with World Neighbors financial statements for the year ended June 30, 2014, from which the summarized information was derived.

NOTE B – RESTRICTED CASH

Restricted cash of \$236,243 and \$278,614 as of June 30, 2015 and 2014, respectively, were held by the Organization in support of the following:

	2015	2014
Program support	\$ 123,297	\$ 248,424
Disaster relief - Nepal earthquake	91,504	-
Disaster relief - general	5,160	10,159
Public relations	16,282	20,031
	<u>\$ 236,243</u>	<u>\$ 278,614</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE C - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable are expected to be collected as follows at June 30, 2015:

Receivable in less than one year	\$ 202,678
Receivable in one to five years	<u>26,350</u>
Gross contributions receivable	229,028
Less discounts to net present value	(13,198)
Less allowance for uncollectible pledges	<u>(22,903)</u>
Net contributions receivable	<u><u>\$ 192,927</u></u>

Contributions receivable in more than one year are discounted at the applicable rate in effect at the time the pledge was made and range from 0.096% to 3.17% during 2015.

At June 30, 2015, all John L. Peters Society Founders' pledges, bequests and other gross contributions are unrestricted for the operations of World Neighbors.

NOTE D - GRANTS AND FEDERAL FUNDS RECEIVABLES

Grants and federal funds receivables are expected to be collected as follows at June 30, 2015:

Receivables in less than one year	
Restricted grants	\$ 366,000
Federal funds	<u>16,098</u>
Grants and federal funds receivables in less than one year	382,098
Grants receivable in one to five years	<u>321,944</u>
Gross grants and federal funds receivables	704,042
Less discounts to net present value	(37,730)
Less allowance for doubtful accounts	<u>(68,795)</u>
Net grants and federal funds receivable	<u><u>\$ 597,517</u></u>

At June 30, 2015, 100% of the grants and federal funds receivables are restricted for the use of specific programs.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE E – INVESTMENTS

World Neighbors investments are managed by investment managers who are authorized to manage within a range for fixed income of 30 percent to 50 percent. At the end of the year, the overall allocation of World Neighbors investments was 31 percent fixed income and 69 percent equities.

Investments were comprised of the following at June 30:

	2015 Carrying Amount	2014 Carrying Amount
Cash equivalent funds	\$ 178,670	\$ 150,952
Securities:		
Common and preferred stocks	366,406	349,075
Equity mutual funds	2,205,618	2,273,902
Fixed income mutual funds	1,272,136	1,478,487
Real estate, futures and commodities mutual funds	104,658	107,714
Total investments	<u>\$ 4,127,488</u>	<u>\$ 4,360,130</u>

The following schedule summarizes the investment income (losses) and its classification in the Statement of Activities for the year ending June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends & interest	\$ 1,655	\$ 202,795	\$ -	\$ 204,450
Investment fees	(1,909)	(37,531)	-	(39,440)
Investment income from funds & endowments	225,628	(165,500)	-	60,128
	<u>\$ 225,374</u>	<u>\$ (236)</u>	<u>\$ -</u>	<u>\$ 225,138</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE F - INVESTMENTS HELD IN TRUSTS

World Neighbors is the trustee of various trusts which are subject to the terms of trust agreements entered into with the donor. Investments held in trusts in cash equivalent funds and securities, at fair value, consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Cash equivalent funds	\$ 56,412	\$ 23,102
Securities:		
Equity mutual funds	569,168	626,330
Fixed income mutual funds	339,858	318,868
Futures and exchange traded funds	21,872	40,842
	<u>\$ 987,310</u>	<u>\$ 1,009,142</u>

NOTE G – SPLIT-INTEREST AGREEMENTS

The Organization administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiaries' lifetime). At the end of the trust's term, the remaining assets are available for the Organization's use. The portion of the trust attributable to the present value of the future benefits to be received by the Organization is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. There were no new contributions for the year ended June 30, 2015. Assets held in the charitable remainder trusts totaled \$987,310 and \$1,009,142 for the years ended June 30, 2015 and 2014, respectively, and are reported in the Organization's Statement of Financial Position. On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$205,986 at June 30, 2015 and \$210,664 at June 30, 2014) is calculated using discount rates ranging from 6.5% to 7% based on the date of the contributions and the mortality tables.

The Organization is also obligated to pay annuitants under charitable gift annuities. The assets held under these agreements are reported in the Statement of Financial Position as investments and a related liability is reported under the caption amounts payable under gift annuities. Assets held in trust under gift annuities are carried at fair value using the methods described in the fair value footnote for investments. Assets held in trust under these agreements amounted to \$847,809 and \$912,737 as of June 30, 2015 and 2014, respectively. There were no new contributions for the year ended June 30, 2015. On an annual basis, the Organization revalues the liability based on actuarial assumptions. The present value of the estimated future payments (\$906,533 and

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE G – SPLIT-INTEREST AGREEMENTS – Continued

\$967,310 as of June 30, 2015 and 2014, respectively) are calculated using discount rates ranging from 4.6% to 10.5% and applicable mortality tables.

In addition to the above split-interest agreements, World Neighbors is also the beneficiary of several charitable remainder trusts in which it is not the trustee. At the time of the donors' death, the trusts will terminate and the remaining assets will be distributed to the beneficiaries. For the year ended June 30, 2015 no new contributions were received. Based on donor life expectancy, and the use of various discount rates ranging from 6.75% to 6.83%, the present value of future benefits expected to be received by the Organization was estimated to be \$1,726,093 and \$1,719,182 at June 30, 2015 and 2014, respectively.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE H - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis at June 30, 2015:

	Fair Value	Quoted Prices in Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 178,670	\$ 178,670
Common and preferred stocks:		
Energy	30,149	30,149
Materials	12,210	12,210
Industrials	28,817	28,817
Consumer discretionary	51,551	51,551
Consumer staples	26,825	26,825
Healthcare	63,749	63,749
Financials	65,414	65,414
Information technology	80,349	80,349
Telecommunication services	3,285	3,285
Utilities	4,057	4,057
Mutual funds:		
Fixed income	1,272,136	1,272,136
Small cap	221,761	221,761
Mid cap	288,951	288,951
Large cap	1,174,599	1,174,599
International	303,114	303,114
Emerging markets	212,524	212,524
Blended cap	4,669	4,669
Real estate	31,676	31,676
Futures	30,346	30,346
Commodities	42,636	42,636
	<u>\$ 4,127,488</u>	<u>\$ 4,127,488</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE H - FAIR VALUE MEASUREMENT – Continued

Fair values of investments held in trusts measured on a recurring basis at June 30, 2015:

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 56,412	\$ 56,412	\$ -
Mutual funds:			
Fixed Income	339,858	339,858	-
Small cap	33,020	33,020	-
Mid cap	45,191	45,191	-
Large cap	286,474	286,474	-
Large blend	115,922	115,922	-
International	56,071	56,071	-
Emerging markets	32,490	32,490	-
Futures	1,750	1,750	-
Exchange traded funds	20,122	20,122	-
Investments held in trusts	987,310	987,310	-
Beneficial interest in remainder trusts	1,726,093	-	1,726,093
Beneficial interest in assets held by others	35,135	-	35,135
	<u>\$ 2,748,538</u>	<u>\$ 987,310</u>	<u>\$ 1,761,228</u>

Fair values for investments and investments held in trust are determined by reference to quoted market prices and other relevant information generated by market transactions. The change in value of the split-interest agreements is reflected in the change in temporarily restricted net assets on the Statement of Activities. The net change for the year ending June 30, 2015 is attributable to an unrealized loss on investments held in remainder trusts of (\$11,381), distributions of (\$6,593) and present value discount of \$24,885.

The Organization reports transfers between levels of the fair value hierarchy, if any, at the end of the reporting period. There were no such transfers at June 30, 2015.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE H - FAIR VALUE MEASUREMENTS – Continued

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	Beneficial Interest in Remainder Trusts	Assets Held by Others	Fair Value
	<u> </u>	<u> </u>	<u> </u>
June 30, 2014	\$ 1,719,182	\$ 33,571	\$ 1,752,753
Additions	-	-	-
Change in value in split interest agreements	13,504	-	13,504
Payments from remainder trust	(6,593)	-	(6,593)
Distributions	-	(1,549)	(1,549)
Change in value in beneficial interest	-	3,113	3,113
	<u> </u>	<u> </u>	<u> </u>
June 30, 2015	<u>\$ 1,726,093</u>	<u>\$ 35,135</u>	<u>\$ 1,761,228</u>

Fair value for the beneficial interest in remainder trusts is determined based on the fair value of trusts investments, less the present value of future payouts expected to be made and discounting to the present value of future benefit expected to be received. Fair value for assets held by others represents the present value of future distributions to be received.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE I - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30, 2015:

	<u>Estimated useful life</u>	
Buildings	25	\$ 570,000
Leasehold and building improvements	10	7,995
Furniture and equipment	7	50,946
Computers and software	2-5	68,133
Vehicles	3-5	<u>179,258</u>
		876,332
Less accumulated depreciation and amortization		<u>(373,191)</u>
		<u><u>\$ 503,141</u></u>

NOTE J - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In previous years, World Neighbors transferred \$20,385 to the Oklahoma City Community Foundation, Inc. (the "OCCF" or the "Foundation") and specified itself as the beneficiary of the funds. The Statement of Financial Position as of June 30, 2015 and 2014 includes the beneficial interests in assets held by others of \$35,135 and \$33,571, respectively. The Statement of Activities for the years ended June 30, 2015 and 2014 include net investment activity of \$1,563 and \$2,743, respectively. World Neighbors received distributions in 2015 and 2014 related to these funds totaling \$1,549 and \$1,489, respectively.

In addition to the funds discussed above, the OCCF maintains a fund that has been contributed by various donors to the Foundation for the benefit of World Neighbors. This fund is not included as assets of World Neighbors. The earnings from the fund are paid to World Neighbors each year. For the years ended June 30, 2015 and 2014, World Neighbors received \$42,552 and \$40,859, respectively, from the fund. At June 30, 2015 and 2014, the fair market value of the fund was approximately \$966,941 and \$922,696, respectively. World Neighbors has no remainder interest in the corpus of the fund.

Annually, distributions from the funds are paid to World Neighbors according to the OCCF's spending policy. The Foundation maintains variance power over these funds. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community.

The Oklahoma United Methodist Foundation (the "OUMF") maintains a fund that has been contributed by a family endowment fund to OUMF for the benefit of World Neighbors. This fund, too, is not included as assets of World Neighbors. The earnings from the fund are paid to World

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE J - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS - Continued

Neighbors each year. For the years ended June 30, 2015 and 2014, World Neighbors received \$16,027 and \$15,318, respectively, from the fund. As of June 30, 2015 and 2014, the fair market value of the fund was approximately \$317,368 and \$333,886, respectively. World Neighbors has no remainder interest in the corpus of the fund.

NOTE K – OPERATING LEASES

The Organization has one non-cancelable operating lease for four office copiers that expire in June 2016. This lease requires that the Organization pay all executory costs such as taxes, maintenance and insurance. Rental expense for this lease was \$7,633 for the year ended June 30, 2015.

Future minimum lease payments, due in one year, approximate \$7,339.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE L - RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2015:

Planned giving fund	\$ 1,704,975
Grants and federal funds restricted for various purposes	906,883
Russell fund for facilities	103,307
Executive chair	655,280
MC Foundation	296,754
Gary Wang fund for program work in Nepal	73,166
Herlin	20,000
Other (temporary portion of permanent endowments)	433,489
Total Temporarily Restricted Net Assets	<u>\$ 4,193,854</u>

Permanently restricted net assets consist of the following at June 30, 2015:

Special endowment - general support	\$ 448,939
Overseas partnership - overseas programs	688,265
World Neighbors - general support	971,613
International programs charitable endowment	268,834
Assets transferred to and held by others - general support	20,385
Total Endowment Funds	<u>2,398,036</u>
Munds charitable trust - general support	395,249
Smith charitable trust - general support	3,279
Total Perpetual Trusts	<u>398,528</u>
Total Permanently Restricted Net Assets	<u>\$ 2,796,564</u>

NOTE M - DONOR DESIGNATED ENDOWMENTS

The Organization's endowment consists of seven individual funds established for a variety of purposes. Its endowments include donor-restricted funds to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Organization has interpreted the Uniform Prudent Management of Institutional Fund Act as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE M - DONOR DESIGNATED ENDOWMENTS – Continued

Therefore, the Organization classifies as permanently restricted net assets: 1) original value of endowed gifts, 2) any subsequent gifts and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the board of trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average value of the prior 20 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal average rate of at least 5% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth, though new gifts and investment return.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were zero as of June 30, 2015 and 2014.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE M - DONOR DESIGNATED ENDOWMENTS – Continued

Endowment net asset composition, by type of fund, as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,561,996	\$ 2,796,564	\$ 4,358,560

Changes in endowment net assets as of June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions	-	-	-	-
Investment income	-	159,522	-	159,522
Investment gain	-	(40,211)	-	(40,211)
Transfers	-	-	-	-
Amounts appropriated for expenditures	-	(182,018)	-	(182,018)
Net changes	\$ -	\$ (62,707)	\$ -	\$ (62,707)

Endowment Net Asset Composition by Type of Fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,624,703	\$ 2,796,564	\$ 4,421,267

NOTE N – CONCENTRATIONS OF CREDIT RISK

World Neighbors maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. World Neighbors has not experienced any losses in such accounts. World Neighbors believes that it is not exposed to any significant credit risk on cash or cash equivalents maintained in U.S. financial institutions.

World Neighbors also maintains bank accounts in most countries in which it operates. These bank accounts are not covered by the Federal Deposit Insurance Corporation. The carrying amount of such cash was \$162,600 and \$113,238 at June 30, 2015 and 2014, respectively, and is included in

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE N – CONCENTRATIONS OF CREDIT RISK – Continued

unrestricted and restricted cash and cash equivalents in the accompanying Statement of Financial Position.

Concentrations of operations located outside the United States represent 41% of the carrying amount of net unrestricted assets; consisting primarily of cash and property and equipment. Foreign field program expenses represent 67% of the total field program expenses reported in the Statement of Functional Expenses.

The grants and federal funds receivables at June 30, 2015 are due from four donors. Sixty-nine percent of contributions receivable are due from two donors at June 30, 2015; seventy percent of total contribution revenues were provided by twelve donors for the year ended June 30, 2015.

NOTE O - DEFINED CONTRIBUTION PENSION PLAN

World Neighbors has a defined contribution (money purchase) pension plan covering all U.S.-based employees. Employee contributions are matched in accordance with the provision of the plan. Total pension expense was approximately \$6,965 and \$12,773 for the years ended June 30, 2015 and 2014, respectively.

NOTE P – RELATED PARTY TRANSACTIONS

As explained in Note A, “Organization and Signification Accounting Policies,” Feed the Children became the sole member of World Neighbors on March 1, 2013. World Neighbors received cash assistance and administrative support from Feed the Children during the year ended June 30, 2015 of \$1,246,728 which is included in the Statement of Activities as subsidy from parent.

NOTE Q – COMMITMENTS

The Organization has an employment agreement with its President and Chief Executive Officer, which extends through June 30, 2018. The aggregate commitment under this agreement was approximately \$566,100 at June 30, 2015.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE R - SUBSEQUENT EVENTS

Subsequent events were evaluated through March 28, 2016, which is the date that the financial statements were available to be issued. During fiscal year 2016, management of both World Neighbors and Feed the Children agreed to and undertook to separate the organizations. The divestiture would require the nullification of the affiliation agreement's memorandum of understanding, which will be put forth to World Neighbors board prior to June 30, 2016, with the desired date of divestiture of June 30, 2016. Any divestiture will be subject to review and approval by the board of Feed the Children.

SUPPLEMENTAL INFORMATION

WORLD NEIGHBORS, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Other Identification Number</u>	<u>Federal Expenditures</u>
<u>Agency for International Development:</u>			
USAID Foreign Assistance for Programs Overseas	98.001	AID-OFDA-G-14-00136	\$ 491,557
USAID Foreign Assistance for Programs Overseas	98.001	AID-472-A-15-00001	46,098
Total Agency for International Development			<u>537,655</u>
<u>U.S. Department of State:</u>			
Office of Global Women's Issues	19.801	S-GT500-13-GR011	37,732
Total U. S. Department of State			<u>37,732</u>
Total Federal Awards Expended:			<u>\$ 575,387</u>

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule

World Neighbors, Inc.

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

- Note 1. Basis of Presentation
The schedule of federal awards includes the federal grant activity of World Neighbors, Inc. under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*.
- Note 2. Basis of Accounting
Expenditures reported on schedule of expenditures of federal awards are reported on the accrual basis of accounting consistent with World Neighbors, Inc.'s basic financial statements.
- Note 3. Program Costs
The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including World Neighbors portion, are more than shown.
- Note 4. Indirect Cost Rate
The amounts expended under the Department of State's Grant Number S-GT500-13-GR011 and the Agency for International Development's Cooperative Agreement Number AID-OFDA-G-14-00136 include zero claimed as an indirect cost recovery. All of the aforementioned expenditures are considered direct costs.
- The amount expended under the Agency for International Development's Cooperative Agreement Number AID-472-A-15-00001 includes \$4,191 claimed as an indirect cost recovery using the *de minimis* rate of ten percent (10%).