



# WORLD NEIGHBORS

Inspiring People • Strengthening Communities

AUDITED FINANCIAL STATEMENTS

June 30, 2016

Audited Financial Statements  
WORLD NEIGHBORS, INC.  
JUNE 30, 2016

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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, 2016, 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, 2016, 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****Emphasis of Matter**

As discussed in Note B to the financial statements, World Neighbors and Feed the Children, Inc. have terminated their affiliation agreement effective June 30, 2016. Our opinion is not modified with respect to this matter.

**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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for additional analysis and is 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 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated March 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 October 26, 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

October 26, 2016

WORLD NEIGHBORS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

ASSETS	2016	2015
Unrestricted cash and cash equivalents	\$ 244,656	\$ 96,893
Restricted cash and cash equivalents	411,781	236,243
Contributions receivable, net	92,682	192,927
Grants receivable, net	270,153	581,419
Federal funds receivable	58,613	16,098
Investments	3,654,877	4,127,488
Prepaid expenses and other assets	46,984	67,941
Assets held in trusts	773,808	987,310
Beneficial interests in remainder trusts	1,681,012	1,726,093
Land, building and equipment, net	492,580	503,141
Beneficial interests in assets held by others	31,470	35,135
TOTAL ASSETS	<u>\$ 7,758,616</u>	<u>\$ 8,570,688</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 38,178	\$ 19,011
Federal funds payable	-	19,963
Accrued liabilities	46,376	31,057
Amounts payable under gift annuities	795,558	906,533
Amounts payable under split-interest trust agreements	178,688	205,986
TOTAL LIABILITIES	<u>1,058,800</u>	<u>1,182,550</u>
NET ASSETS:		
Unrestricted	477,991	397,720
Temporarily restricted	3,425,261	4,193,854
Permanently restricted	2,796,564	2,796,564
TOTAL NET ASSETS	<u>6,699,816</u>	<u>7,388,138</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,758,616</u>	<u>\$ 8,570,688</u>

See accompanying notes.3

WORLD NEIGHBORS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 1,224,266	\$ 71,074	\$ -	\$ 1,295,340	\$ 1,011,083
Contributions from supporting organization, net	879,992	68,070	-	948,062	1,246,728
Federal funds	945,681	-	-	945,681	537,655
Grants	-	518,501	-	518,501	1,402,001
Investment income gains (losses)	221,212	(33,369)	-	187,843	225,138
Net investment gains (losses)	(21)	(491,256)	-	(491,277)	(197,964)
Change in value of split-interest agreements	-	(19,020)	-	(19,020)	21,294
Other income	84,867	-	-	84,867	65,708
Net assets released from restrictions and transfers	882,593	(882,593)	-	-	-
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<u>4,238,590</u>	<u>(768,593)</u>	<u>-</u>	<u>3,469,997</u>	<u>4,311,643</u>
EXPENSES					
Program services:					
Field program	2,989,227	-	-	2,989,227	2,888,571
Public education	311,441	-	-	311,441	299,530
Supporting activities:					
Management and general	321,706	-	-	321,706	303,896
Fundraising	535,945	-	-	535,945	494,848
<b>TOTAL EXPENSES</b>	<u>4,158,319</u>	<u>-</u>	<u>-</u>	<u>4,158,319</u>	<u>3,986,845</u>
<b>CHANGE IN NET ASSETS</b>	<u>80,271</u>	<u>(768,593)</u>	<u>-</u>	<u>(688,322)</u>	<u>324,798</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	397,720	4,193,854	2,796,564	7,388,138	7,063,340
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 477,991</u>	<u>\$ 3,425,261</u>	<u>\$ 2,796,564</u>	<u>\$ 6,699,816</u>	<u>\$ 7,388,138</u>

See accompanying notes.4

WORLD NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	Program Services			Supporting Activities			Total FY2016	Total FY2015
	Field Program	Public Education	Total Program Services	Management and General	Fundraising	Total Supporting Activities		
Salaries and related expenses:								
Salaries	\$ 996,852	\$ 118,291	\$ 1,115,143	\$ 166,252	\$ 198,349	\$ 364,601	\$ 1,479,744	\$ 1,494,454
Payroll taxes	30,854	3,772	34,626	11,783	12,879	24,662	59,288	74,412
Benefits	178,324	21,614	199,938	19,291	29,712	49,003	248,941	211,068
	<u>1,206,030</u>	<u>143,677</u>	<u>1,349,707</u>	<u>197,326</u>	<u>240,940</u>	<u>438,266</u>	<u>1,787,973</u>	<u>1,779,934</u>
Field operations	1,186,193	-	1,186,193	-	-	-	1,186,193	1,107,695
Contract services	27,441	15,978	43,419	7,188	119,839	127,027	170,446	108,928
Legal and accounting services	38,318	5,863	44,181	20,344	6,444	26,788	70,969	58,331
Travel	174,775	45,074	219,849	21,728	37,055	58,783	278,632	282,909
Office supplies	45,967	12,377	58,344	3,196	7,152	10,348	68,692	58,426
Telephone	24,031	6,095	30,126	1,124	1,963	3,087	33,213	35,513
Postage	3,963	692	4,655	2,635	3,260	5,895	10,550	7,558
Rent and occupancy	147,820	36,890	184,710	1,027	1,425	2,452	187,162	209,777
Office equipment and software	10,115	1,777	11,892	6,239	15,944	22,183	34,075	32,992
In-kind advertising	-	23,670	23,670	11,835	82,843	94,678	118,348	112,126
Printing and publications	10,053	2,764	12,817	306	5,291	5,597	18,414	17,224
Depreciation	34,003	-	34,003	35,593	7,545	43,138	77,141	73,851
Dues	4,170	1,161	5,331	2,216	2,523	4,739	10,070	9,104
Training and meetings	51,518	12,893	64,411	215	278	493	64,904	39,903
Financial expenses	24,830	2,530	27,360	10,734	3,443	14,177	41,537	52,574
Total expenses	<u>\$ 2,989,227</u>	<u>\$ 311,441</u>	<u>\$ 3,300,668</u>	<u>\$ 321,706</u>	<u>\$ 535,945</u>	<u>\$ 857,651</u>	<u>\$ 4,158,319</u>	<u>\$ 3,986,845</u>

See accompanying notes.5

WORLD NEIGHBORS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

OPERATING ACTIVITIES	2016	2015
Changes in net assets	\$ (688,322)	\$ 324,798
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	77,141	73,851
Net unrealized and realized (gain) loss on investments	159,179	35,724
Changes in operating assets and liabilities:		
Contributions receivable	100,245	53,536
Grants receivable	311,266	(581,419)
Federal funds receivable	(42,515)	(4,220)
Prepaid and other assets	20,957	(13,555)
Assets held in trusts	213,502	21,832
Beneficial interests in remainder trusts	45,081	(6,911)
Beneficial interest in assets held by others	3,665	(1,564)
Accounts payable and accrued expenses	14,523	28,295
Amounts payable under charitable gift annuities	(110,975)	(60,777)
Obligations under split- interest agreements	(27,298)	(4,678)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	76,449	(135,088)
 INVESTING ACTIVITIES		
Purchases of investments	(1,760,580)	(992,860)
Proceeds from sales of investments	2,057,490	1,189,778
Purchase of fixed assets	(50,058)	(90,978)
NET CASH PROVIDED BY INVESTING ACTIVITIES	246,852	105,940
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	323,301	(29,148)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	333,136	362,284
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 656,437	\$ 333,136
 RECONCILIATION OF CASH:		
Unrestricted cash and cash equivalents	\$ 244,656	\$ 96,893
Restricted cash and cash equivalents	411,781	236,243
	\$ 656,437	\$ 333,136

See accompanying notes.6



WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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).

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.

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.

Net assets

Net assets and related revenues and support are classified based upon the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted net assets* – Includes all resources that are expendable at the discretion of the Board of Trustees for the Organization’s programs.

*Temporarily restricted net assets* – Net assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or occurrence of specified events or actions. When a restriction has been fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated Statement of Activities as net assets released from restrictions. Contributions with restrictions that are fulfilled in the same time period in which the contribution is received are recorded as unrestricted contributions in the Statement of Activities.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

*Permanently restricted net assets* – Net assets whose use is limited by donor-imposed restrictions that require such resources be maintained in perpetuity and the income therefrom utilized for operating or other donor-imposed purposes.

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.

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.

Grants and federal funds receivable

Grants receivables consist of amounts due from multi-year grants awarded from various agencies, less an adjustment for net present valuation; as well as, an allowance for doubtful accounts. Federal funds receivables consist of amounts due from Cooperative Agreements awarded by the United States Agency for International Development.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Donated assets

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

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.

Prepaid expenses and other assets

Certain payments reflect costs applicable to future periods. Prepaid expenses and other assets include certain prepaid insurance costs which are expensed over the life of the policies.

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

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 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 interests in remainder trusts

Beneficial interests 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.

Other revenues

Other revenues in the Statement of Activities primarily consist of gross rental income associated with two donated condominiums in Florida; as well as, various types of royalty income.

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.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 interests 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.

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, 2016 and 2015 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, 2013, 2014 and 2015 are subject to examination by the Internal Revenue Service generally for three years after they were filed.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Functional allocation of expenses

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

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, 2015, from which the summarized information was derived.

Subsequent events

Management has evaluated subsequent events through October 26, 2016, the date the financial statements were available to be issued.

NOTE B – DIVESTITURE FROM FEED THE CHILDREN

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. This agreement could be terminated at any time at the sole discretion of Feed the Children.

Effective June 30, 2016, both parties acknowledged and agreed that Feed the Children terminate the affiliation. This action, and the resulting Separation Agreement, ended the affiliation between the two entities. Feed the Children's net cash and non-cash contributions of \$948,062 in 2016 are listed as "contributions from supporting organization, net" within the Statement of Activities. As of June 30, 2016, a \$70,107 receivable from Feed the Children is a component of "contributions receivable, net" within the Statement of Financial Position.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE C – RESTRICTED CASH

Restricted cash of \$411,781 and \$236,243 as of June 30, 2016 and 2015, respectively, were held by the Organization in support of the following:

	2016	2015
Program support	\$ 370,561	\$ 123,297
Disaster relief - Nepal earthquake	39,060	91,504
Disaster relief - general	2,160	5,160
Public relations	-	16,282
	<u>\$ 411,781</u>	<u>\$ 236,243</u>

NOTE D - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable are expected to be collected as follows at June 30, 2016:

Receivables in less than one year	\$ 95,190
Less allowance for uncollectible pledges	<u>(2,508)</u>
Net contributions receivable	<u>\$ 92,682</u>

At June 30, 2016, all John L. Peters Society Founders' pledges, bequests and other gross contributions are unrestricted for the operations of World Neighbors.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE E - GRANTS AND FEDERAL FUNDS RECEIVABLES

Grants and federal funds receivables are expected to be collected as follows at June 30, 2016:

Receivables in less than one year	
Restricted grants	\$ 155,063
Federal funds	58,613
Grants and federal funds receivables in less than one year	<u>213,676</u>
Grants receivable in one to five years	<u>166,239</u>
Gross grants and federal funds receivables	379,915
Less discounts to net present value	(19,019)
Less allowance for doubtful accounts	<u>(32,130)</u>
Net grants and federal funds receivable	<u><u>\$ 328,766</u></u>

At June 30, 2016, 100% of the grants and federal funds receivables are restricted for the use of specific programs.

NOTE F - ASSETS 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>2016</u>	<u>2015</u>
Cash equivalent funds	\$ 6,745	\$ 56,412
Securities:		
Equity mutual funds	489,082	569,168
Fixed income mutual funds	277,981	339,858
Futures and exchange traded funds	-	21,872
	<u><u>\$ 773,808</u></u>	<u><u>\$ 987,310</u></u>



WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE G – 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 27 percent fixed income and 73 percent equities.

Investments were comprised of the following at June 30:

	2016 Carrying Amount	2015 Carrying Amount
Cash equivalent funds	\$ 235,718	\$ 178,670
Securities:		
Common and preferred stocks	298,721	366,406
Equity mutual funds	1,928,927	2,205,618
Fixed income mutual funds	990,371	1,272,136
Real estate, futures and commodities mutual funds	201,140	104,658
Total investments	<u>\$ 3,654,877</u>	<u>\$ 4,127,488</u>

The following schedule summarizes the investment income (losses) and its classification in the Statement of Activities for the year ending June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends & interest	\$ 2,758	\$ 157,587	\$ -	\$ 160,345
Investment fees	(2,510)	(31,584)	-	(34,094)
Investment income from funds & endowments	220,964	(159,372)	-	61,592
	<u>\$ 221,212</u>	<u>\$ (33,369)</u>	<u>\$ -</u>	<u>\$ 187,843</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – 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, 2016. Assets held in the charitable remainder trusts totaled \$773,808 and \$987,310 for the years ended June 30, 2016 and 2015, 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 (\$178,688 at June 30, 2016 and \$205,986 at June 30, 2015) 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 \$655,422 and \$847,809 as of June 30, 2016 and 2015, respectively. There were no new contributions for the year ended June 30, 2016. On an annual basis, the Organization revalues the liability based on actuarial assumptions. The present value of the estimated future payments (\$795,558 and \$906,533 as of June 30, 2016 and 2015, 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, 2016 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 \$1,681,012 and \$1,726,093 at June 30, 2016 and 2015, respectively.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE I - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis at June 30, 2016:

	Fair Value	Quoted Prices in Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 235,718	\$ 235,718
Common and preferred stocks:		
Energy	21,385	21,385
Materials	12,017	12,017
Industrials	25,225	25,225
Consumer discretionary	41,336	41,336
Consumer staples	25,590	25,590
Healthcare	48,563	48,563
Financials	46,981	46,981
Information technology	61,738	61,738
Telecommunication services	7,977	7,977
Utilities	7,910	7,910
Mutual funds:		
Fixed income	990,371	990,371
Small cap	161,368	161,368
Mid cap	382,346	382,346
Large cap	714,963	714,963
Large blend	164,963	164,963
International	319,110	319,110
Emerging markets	186,176	186,176
Real estate	68,633	68,633
Futures	84,421	84,421
Commodities	48,086	48,086
	<u>\$ 3,654,877</u>	<u>\$ 3,654,877</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE I - FAIR VALUE MEASUREMENT – Continued

Fair values of investments held in trusts measured on a recurring basis at June 30, 2016:

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 6,745	\$ 6,745	\$ -
Mutual funds:			
Fixed Income	277,981	277,981	-
Small cap	31,314	31,314	-
Mid cap	56,196	56,196	-
Large cap	164,457	164,457	-
Large blend	122,004	122,004	-
International	89,910	89,910	-
Emerging markets	25,201	25,201	-
Investments held in trusts	773,808	773,808	-
Beneficial interests in remainder trusts	1,681,012	-	1,681,012
Beneficial interest in assets held by others	31,470	-	31,470
	<u>\$ 2,486,290</u>	<u>\$ 773,808</u>	<u>\$ 1,712,482</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 beneficial interests in remainder trusts is a component of the “change in value of split-interest agreements” in temporarily restricted net assets on the Statement of Activities. The net change for the year ending June 30, 2016 is attributed to an unrealized loss on investments held in remainder trusts of (\$108,598), a distribution of (\$803) and present value discount of \$64,320.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE I - FAIR VALUE MEASUREMENTS – Continued

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, 2016.

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

	Beneficial Interests in Remainder Trusts	Beneficial Interest in Assets Held by Others	Fair Value
	<u>                    </u>	<u>                    </u>	<u>                    </u>
June 30, 2015	\$ 1,726,093	\$ 35,135	\$ 1,761,228
Additions	-	-	-
Change in value in split interest agreements	(44,278)	-	(44,278)
Payments from remainder trust	(803)	-	(803)
Distributions	-	(1,624)	(1,624)
Change in value in beneficial interest	<u>-</u>	<u>(2,041)</u>	<u>(2,041)</u>
June 30, 2016	<u>\$ 1,681,012</u>	<u>\$ 31,470</u>	<u>\$ 1,712,482</u>

Fair value for the beneficial interests 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, 2016

NOTE J - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30, 2016:

	Estimated useful life	
Buildings	25	\$ 570,000
Leasehold and building improvements	3-10	18,479
Furniture and equipment	7	73,636
Computers and software	2-5	77,860
Vehicles	3-5	202,937
		<u>942,912</u>
Less accumulated depreciation and amortization		<u>(450,332)</u>
		<u>\$ 492,580</u>

NOTE K - BENEFICIAL INTERESTS 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, 2016 and 2015 includes the beneficial interest in assets held by others of \$31,470 and \$35,135, respectively. The Statement of Activities for the years ended June 30, 2016 and 2015 include net investment activity of (\$2,041) and \$3,112, respectively. World Neighbors received distributions in 2016 and 2015 related to these funds totaling \$1,624 and \$1,549, 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, 2016 and 2015, World Neighbors received \$44,632 and \$42,552, respectively, from the fund. At June 30, 2016 and 2015, the fair market value of the fund was approximately \$866,544 and \$966,941, 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, 2016

NOTE K - BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS - Continued

Neighbors each year. For the years ended June 30, 2016 and 2015, World Neighbors received \$15,335 and \$16,027, respectively, from the fund. As of June 30, 2016 and 2015, the fair market value of the fund was approximately \$295,420 and \$317,368, respectively. World Neighbors has no remainder interest in the corpus of the fund.

NOTE L – OPERATING LEASES

The Organization had one non-cancelable operating lease (for four office copiers) that expired in July 2016. This lease required that the Organization pay all executory costs such as taxes, maintenance and insurance. Rental expense for this lease was \$6,683 for the year ended June 30, 2016.

On July 13, 2016, the Organization entered into a new, non-cancelable lease (for office equipment) that will expire in July 2021. This lease, too, requires that the Organization pay all executory costs such as taxes, maintenance and insurance. Future minimum lease payments under this operating lease that have remaining terms in excess of one year as of July 13, 2016, are:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 2,619
2018	2,619
2019	2,619
2020	2,619
Thereafter	<u>2,619</u>
	<u>\$ 13,095</u>

On July 15, 2016, the Organization entered into a six-year rental agreement for its headquarters office at 5600 N. May Avenue in Oklahoma City. The lease extends through July 31, 2022. Future minimum lease payments under this rental agreement in excess of one year as of August 1, 2016, are:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 29,463
2018	33,292
2019	34,440
2020	35,588
Thereafter	<u>74,620</u>
	<u>\$ 207,403</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE M - RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2016:

Planned giving fund	\$ 1,367,788
Grants restricted for various purposes	681,934
Russell fund for facilities	97,211
Executive chair	627,790
MC Foundation	284,786
Gary Wang fund for program work in Nepal	66,827
Herlin	10,000
Other (temporary portion of permanent endowments)	288,925
Total Temporarily Restricted Net Assets	<u>\$ 3,425,261</u>

Permanently restricted net assets consist of the following at June 30, 2016:

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 N - 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, 2016

NOTE N - 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, 2016 and 2015.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE N - DONOR DESIGNATED ENDOWMENTS – Continued

Endowment net asset composition, by type of fund, as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,365,539	\$ 2,796,564	\$ 4,162,103

Changes in endowment net assets as of June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions	-	-	-	-
Investment income	-	120,121	-	120,121
Investment losses	-	(142,904)	-	(142,904)
Transfers	-	-	-	-
Amounts appropriated for expenditures	-	(173,674)	-	(173,674)
Net changes	\$ -	\$ (196,457)	\$ -	\$ (196,457)

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

NOTE O – 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 \$128,475 and \$162,600 at June 30, 2016 and 2015, respectively, and is included in

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE O – 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 44% of the carrying amount of net unrestricted assets; consisting primarily of cash and property and equipment. Foreign field program expenses represent 72% of the total field program expenses reported in the Statement of Functional Expenses.

The Organization's operations in Latin America and the Caribbean (Bolivia, Guatemala, Haiti and Peru), Africa (Burkina Faso, Kenya, Mali, Tanzania and Uganda), South Asia (India and Nepal) and South East Asia (Indonesia and Timor-Leste) are subject to risks inherent in operating in these sovereign states that are not typically associated with operations in North America. Accordingly, the Organization's financial condition and activities may be influenced by the political, economic, and legal environments in these sovereign states. As a result, World Neighbors' activities in these states are subject to a variety of risks, including:

- Social, political, and economic instability;
- Inflation;
- Unexpected changes in regulatory requirements; and,
- Fluctuations in foreign exchange rates.

Any of these developments, or others, could adversely affect World Neighbors' financial condition and activities.

The grants and federal funds receivables at June 30, 2016 are due from four donors. The contributions receivable are due from two donors at June 30, 2016 and 61% of total contribution revenues were provided by four donors for the year ended June 30, 2016.

NOTE P - 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 \$13,943 and \$6,965 for the years ended June 30, 2016 and 2015, respectively.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$384,948 at June 30, 2016.

## **SUPPLEMENTAL INFORMATION**

WORLD NEIGHBORS, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2016

<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	\$ 519,449
USAID Foreign Assistance for Programs Overseas	98.001	AID-472-A-15-00001	426,232
Total Federal Awards Expended:			<u>\$ 945,681</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, 2016

- Note 1. Basis of Presentation  
The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of World Neighbors, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of World Neighbors, Inc. it is not intended to and does not present the financial position, changes in net position, or cash flows of the Organization.
- Note 2. Basis of Accounting  
Expenditures reported on the Schedule 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 World Neighbors' program costs. Entire program costs, including World Neighbors' portion, are more than shown.
- Note 4. Indirect Cost Rate  
All amounts expended under the Agency for International Development's Cooperative Agreement Number AID-OFDA-G-14-00136 are considered direct costs. The amounts do not include any indirect cost recovery.
- The amount expended under the Agency for International Development's Cooperative Agreement Number AID-472-A-15-00001 includes \$37,492.13 claimed as an indirect cost recovery using the *de minimis* rate of 10% of modified total direct costs.