



WORLD NEIGHBORS

Inspiring People • Strengthening Communities

AUDITED FINANCIAL STATEMENTS

June 30, 2018

Audited Financial Statements

WORLD NEIGHBORS, INC.

JUNE 30, 2018

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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, 2018, 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, 2018, 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of 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 2017 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 18, 2018, 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 CPA's & Advisors

Oklahoma City, Oklahoma
October 18, 2018

WORLD NEIGHBORS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	2018	2017
ASSETS		
Unrestricted cash and cash equivalents	\$ 360,300	\$ 65,822
Restricted cash and cash equivalents	286,171	127,365
Accounts receivable:		
Grants, net	378,945	243,637
Federal funds	13,919	9,436
Bequests	20,000	660,000
Investments, at fair value	4,822,913	4,184,744
Prepaid expenses and other assets	59,286	66,027
Assets held in trusts	809,840	807,894
Beneficial interests in remainder trusts	1,713,015	1,751,806
Beneficial interest in assets held by others	95,143	34,779
Property and equipment, net	118,941	529,263
	<u>8,678,473</u>	<u>8,480,773</u>
TOTAL ASSETS	\$ 8,678,473	\$ 8,480,773
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 23,855	\$ 20,576
Accrued liabilities	49,787	75,849
Actuarial liability for gift annuities	244,715	259,321
Obligations under split-interest agreements	172,843	173,755
	<u>491,200</u>	<u>529,501</u>
TOTAL LIABILITIES	491,200	529,501
 NET ASSETS		
Unrestricted	1,229,230	877,478
Temporarily restricted	4,099,229	4,276,280
Permanently restricted	2,858,814	2,797,514
	<u>8,187,273</u>	<u>7,951,272</u>
TOTAL NET ASSETS	8,187,273	7,951,272
 TOTAL LIABILITIES AND NET ASSETS	 \$ 8,678,473	 \$ 8,480,773

WORLD NEIGHBORS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 1,341,466	\$ 23,274	\$ 1,300	\$ 1,366,040	\$ 1,818,035
Federal funds	1,346,888	-	-	1,346,888	1,403,368
Grants	-	785,608	-	785,608	1,198,882
Investment income gains (losses)	248,104	(44,939)	-	203,165	148,838
Net investment gains (losses)	5,829	121,154	-	126,983	662,379
Change in value of split-interest agreements	-	(37,515)	-	(37,515)	79,037
Other sources	63,725	-	-	63,725	80,906
Net assets released from restrictions and transfers	964,633	(1,024,633)	60,000	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	3,970,645	(177,051)	61,300	3,854,894	5,391,445
EXPENSES					
Program services:					
Field program	2,793,155	-	-	2,793,155	3,127,451
Public education	237,180	-	-	237,180	270,600
Supporting activities:					
Management and general	185,248	-	-	185,248	198,502
Fundraising	403,310	-	-	403,310	543,436
TOTAL EXPENSES	3,618,893	-	-	3,618,893	4,139,989
CHANGE IN NET ASSETS	351,752	(177,051)	61,300	236,001	1,251,456
NET ASSETS, BEGINNING OF YEAR	877,478	4,276,280	2,797,514	7,951,272	6,699,816
NET ASSETS, END OF YEAR	\$ 1,229,230	\$ 4,099,229	\$ 2,858,814	\$ 8,187,273	\$ 7,951,272

WORLD NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Program Services			Supporting Activities			Total FY2018	Total FY2017
	Field Program	Public Education	Total Program Services	Management and General	Fundraising	Total Supporting Activities		
Salaries and related expenses:								
Salaries	\$ 932,026	\$ 103,649	\$ 1,035,675	\$ 96,553	\$ 161,886	\$ 258,439	\$ 1,294,114	\$ 1,300,756
Payroll taxes	56,246	6,037	62,283	6,264	11,067	17,331	79,614	47,687
Benefits	187,850	21,823	209,673	14,390	27,521	41,911	251,584	211,192
	<u>1,176,122</u>	<u>131,509</u>	<u>1,307,631</u>	<u>117,207</u>	<u>200,474</u>	<u>317,681</u>	<u>1,625,312</u>	<u>1,559,635</u>
Field program	1,063,318	-	1,063,318	-	-	-	1,063,318	1,274,505
Contract services	50,476	11,216	61,692	3,335	45,164	48,499	110,191	146,939
In-kind contract services	-	-	-	-	932	932	932	42,500
Legal and accounting services	48,932	6,514	55,446	12,947	7,994	20,941	76,387	107,834
Travel	152,688	38,110	190,798	9,230	13,154	22,384	213,182	255,865
Office supplies	20,942	4,437	25,379	1,405	1,425	2,830	28,209	43,589
Telephone	23,711	4,626	28,337	2,625	1,386	4,011	32,348	32,616
Postage	3,398	343	3,741	917	3,585	4,502	8,244	11,478
Rent and occupancy	123,367	30,415	153,782	1,324	3,370	4,694	158,476	217,971
Office equipment and software	14,734	1,405	16,139	3,835	7,835	11,670	27,809	40,552
In-kind advertising	-	-	-	-	87,474	87,474	87,474	118,043
Printing and publications	5,088	975	6,063	1,493	18,124	19,617	25,680	44,355
Depreciation	47,492	-	47,492	17,457	4,364	21,821	69,312	92,011
Dues	4,475	1,177	5,652	802	3,866	4,668	10,320	10,937
Training and meetings	8,368	2,092	10,460	20	284	304	10,764	59,217
Financial expenses	50,044	4,361	54,405	12,651	3,879	16,530	70,935	81,942
Total expenses	<u>\$ 2,793,155</u>	<u>\$ 237,180</u>	<u>\$ 3,030,335</u>	<u>\$ 185,248</u>	<u>\$ 403,310</u>	<u>\$ 588,558</u>	<u>\$ 3,618,893</u>	<u>\$ 4,139,989</u>

WORLD NEIGHBORS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 236,001	\$ 1,251,456
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	69,312	92,011
Gain on the disposition of assets	(14,096)	-
Net unrealized and realized (gains) losses on investments	(176,177)	(349,046)
Cash received from temporarily restricted investments	310,126	-
Contributions restricted for temporarily restricted and permanent investments	(1,300)	(109,628)
Change in fair value of assets held in trusts	(1,946)	(34,086)
Change in fair value of beneficial interests in remainder trusts	38,791	(70,794)
Change in fair value of beneficial interest in assets held by others	(60,364)	(3,309)
Present value adjustments and actuarial liability for split-interest agreements	(15,518)	(541,170)
Changes in operating assets and liabilities:		
Accounts receivable	500,209	(491,625)
Prepaid expenses and other assets	6,741	(19,043)
Accounts payable and accrued liabilities	(22,783)	11,871
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	868,996	(263,363)
INVESTING ACTIVITIES		
Proceeds from sales of investments	1,293,981	1,032,886
Purchase of investments	(2,122,057)	(1,213,529)
Proceeds from disposition of property and equipment	366,812	-
Purchases of property and equipment	(15,748)	(128,872)
NET CASH PROVIDED BY INVESTING ACTIVITIES	(477,012)	(309,515)
FINANCING ACTIVITIES		
Proceeds from contributions for:		
Investment in endowment funds	61,300	950
Investment in temporarily restricted funds	-	108,678
NET CASH PROVIDED BY FINANCING ACTIVITIES	61,300	109,628
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	453,284	(463,250)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	193,187	656,437
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 646,471	\$ 193,187
RECONCILIATION OF CASH:		
Unrestricted cash and cash equivalents	\$ 360,300	\$ 65,822
Restricted cash and cash equivalents	286,171	127,365
	\$ 646,471	\$ 193,187

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, Southeast 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 27 million people in 45 countries have transformed their lives with the support of World Neighbors. The Organization is headquartered in Oklahoma City, Oklahoma and has nine international field offices, which oversee the Organization’s program work in thirteen countries in Latin America and the Caribbean (Bolivia, Guatemala, Haiti and Peru), South Asia (India and Nepal), Southeast 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 an accrual basis.

Basis of presentation

The Organization maintains its accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are consistent with activities or objectives specified by donors. Separate accounts are maintained for each fund.

Net assets

For reporting purposes, the Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) that requires resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three categories of net assets – unrestricted, temporarily restricted and permanently restricted. Descriptions of the three net asset categories and the type of transactions affecting each category follow.

Unrestricted net assets are not subject to donor-imposed restrictions. This category includes all resources that are expendable at the discretion of the Board of Trustees for the Organization’s programs.

Temporarily restricted net assets are limited by donor-imposed restrictions that expire with either the passage of time or the 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

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

the Statement of Activities as net assets released from restrictions. Contributions with restrictions that are fulfilled in the same period in which the contribution is received are recorded as unrestricted contributions in the Statement of Activities.

Permanently restricted net assets are 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 Statements of Financial Position and 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

The Organization follows the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2013-06, Subtopic 958-605, “Not-for-Profit Entities - Revenue Recognition,” to recognize cash and gift-in-kind contributions from individuals and organizations. These contributions, including unconditional promises to give (“pledges”), are recognized as revenue when the donor's unconditional commitment is received. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted.

When a temporary restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions with restrictions that are fulfilled in the period in which the contribution is received are recorded as unrestricted contributions in the financial statements. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Pledges that are 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.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 portfolio.

Certain projects of the Organization are assisted by cooperative agreements from the United States Agency for International Development (“USAID”). Revenues from these cooperative agreements are deemed earned and recognized in the Statements of Activities when expenditures are made for the purposes specified. Cooperative agreement funds that have been received but have not yet been expended for the purposes specified are reported as deferred revenue.

Grant and federal funds receivables

Grant 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 USAID.

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 based on 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

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 insurance premiums, which are expensed over the life of the policies.

Property and equipment

Acquisitions of property and equipment and leasehold improvements in excess of \$1,000 are capitalized. Property and equipment are stated at cost at acquisition. Donations of property 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 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 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

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 six-months of gross rental income associated with two donated condominiums in Florida; as well as, various types of royalty income. The condominiums were sold in January 2018; the sales proceeds are a component of the Organization's unrestricted investments.

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 obligations 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 actuarial liability for gift annuities in the Statement of Financial Position.

Use of estimates

The preparation of financial statements in conformity with GAAP of the United States of America 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 interests in remainder trusts and contributions receivable. Investments and beneficial interests, 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 accounts receivable is based on

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

consideration of all relevant available information and an analysis of the collectability of accounts receivable, which arise primarily from USAID, third-party foundations and donor agencies, trusts and estates at the financial statement date.

Income taxes

World Neighbors is exempt from income taxes under Section 501(c)(3) of the United States (“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, 2018 and 2017 that would require the Organization to record a liability for the uncertain tax positions in its financial statements. The Organization’s Form 990, “Return of Organization Exempt from Income Tax,” for the years ended June 30, 2015, 2016 and 2017 are subject to examination by the Internal Revenue Service generally for three years after they were filed.

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. Expenses have been allocated based on direct cost allocations, employee functional time distribution and indirect cost allocation estimates.

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, 2017, from which the summarized information was derived.

New accounting pronouncement

In August 2016, the FASB issued ASU 2016-14, “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,” which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are:

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

- It replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions;
- It expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds;
- It requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses; and
- It requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the Organization's available financial resources and the methods by which it manages liquidity and liquidity risk.

ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. World Neighbors will implement this standard as of June 30, 2019.

Subsequent events

Management has evaluated subsequent events through October 18, 2018, the date the financial statements were available to be issued.

NOTE B – RESTRICTED CASH

Restricted cash of \$286,171 and \$127,365 as of June 30, 2018 and 2017, respectively, were held by the Organization in support of the following:

	2018	2017
Program	\$ 282,171	\$ 87,855
Disaster relief	4,000	38,510
Marketing and communications	-	1,000
	<u>\$ 286,171</u>	<u>\$ 127,365</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE C - GRANTS AND FEDERAL FUNDS RECEIVABLES

Grants and federal funds receivables to be collected at June 30, 2018 are as follows:

Receivables in less than one year:

Restricted grants	\$ 269,960
Federal funds	13,919
Grants and federal funds receivables in less than one year	<u>283,879</u>
Grants receivable in one to five years	165,402
Gross grants and federal funds receivables	449,281
Less discounts to net present value	(12,881)
Less allowance for doubtful accounts	<u>(43,536)</u>
Net grants and federal funds receivable	<u><u>\$ 392,864</u></u>

At June 30, 2018, 100% of the grants and federal funds receivables are restricted for the use of specific programs.

NOTE D - 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, which include cash equivalent funds and securities, at fair value, consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Cash equivalent funds	\$ 22,338	\$ 14,048
Securities:		
Mutual funds - equities	406,414	374,834
Mutual funds - fixed income	245,585	288,215
Mutual funds - alternatives	135,503	130,797
	<u><u>\$ 809,840</u></u>	<u><u>\$ 807,894</u></u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE E – INVESTMENTS

World Neighbors' investment portfolio is managed by independent investment managers who are provided with broad investment guidelines approved by the Organization's Investment Committee. The guidelines authorize the managers to manage fixed income assets within a range of 30 percent to 50 percent. At the end of the year, the overall allocation of World Neighbors' investments was 57 percent equities, 30 percent fixed income, seven percent alternative mutual funds and six percent cash.

Investments consist of the following at June 30:

	2018 Carrying Amount	2017 Carrying Amount
Cash equivalent funds	\$ 288,680	\$ 534,874
Securities:		
Common and preferred stocks	249,960	232,774
Mutual funds - equities	2,509,344	2,143,210
Mutual funds - fixed income	1,413,646	995,409
Mutual funds - alternatives	361,283	278,477
Total investments	<u>\$ 4,822,913</u>	<u>\$ 4,184,744</u>

The following schedule summarizes the investment income gains (losses) and its classification in the Statement of Activities for the year ending June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends & interest	\$ 17,618	\$ 161,123	\$ -	\$ 178,741
Investment fees	(7,013)	(32,062)	-	(39,075)
Investment income from funds & endowments	237,499	(174,000)	-	63,499
	<u>\$ 248,104</u>	<u>\$ (44,939)</u>	<u>\$ -</u>	<u>\$ 203,165</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE E – INVESTMENTS - Continued

In the Statement of Activities for the year ending June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends & interest	\$ 1,690	\$ 116,881	\$ -	\$ 118,571
Investment fees	(2,526)	(29,393)	-	(31,919)
Investment income from funds & endowments	233,186	(171,000)	-	62,186
	<u>\$ 232,350</u>	<u>\$ (83,512)</u>	<u>\$ -</u>	<u>\$ 148,838</u>

NOTE F – 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, 2018. Assets held in the charitable remainder trusts totaled \$809,840 and \$807,894 for the years ended June 30, 2018 and 2017, 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 (\$172,843 at June 30, 2018 and \$173,755 at June 30, 2017) 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 "actuarial liability for 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 \$305,246 and \$334,725 as of June 30, 2018 and 2017, respectively. There were no new contributions for the year ended June 30, 2018. On an annual basis, the Organization revalues the liability based on actuarial assumptions. The present value of the estimated future payments (\$244,715 and \$259,321 as of June 30, 2018 and 2017, respectively) are calculated using discount rates ranging from 4.6% to 10.5% and applicable mortality tables.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE F – SPLIT-INTEREST AGREEMENTS - Continued

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, 2018, 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 by the Organization was estimated to be \$1,713,015 and \$1,751,806 at June 30, 2018 and 2017, respectively.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE G - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis at June 30, 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 288,680	\$ 288,680	\$ -
Common and preferred stocks:			
Energy	17,884	17,884	-
Materials	11,974	11,974	-
Industrials	18,667	18,667	-
Consumer discretionary	36,429	36,429	-
Consumer staples	15,520	15,520	-
Healthcare	32,257	32,257	-
Financials	33,563	33,563	-
Information technology	70,650	70,650	-
Telecommunication services	3,583	3,583	-
Utilities	5,757	5,757	-
Real estate	3,676	3,676	-
Mutual funds:			
Fixed income	1,413,646	1,413,646	-
Small cap	242,035	242,035	-
Mid cap	513,542	513,542	-
Large cap	910,425	910,425	-
International	533,289	533,289	-
Emerging markets	222,973	222,973	-
Real estate	87,080	87,080	-
Alternatives	361,283	361,283	-
	<u>\$4,822,913</u>	<u>\$ 4,822,913</u>	<u>\$ -</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE G - FAIR VALUE MEASUREMENTS – Continued

Fair values of investments held in trusts measured on a recurring basis at June 30, 2018:

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 22,338	\$ 22,338	\$ -
Mutual funds:			
Fixed Income	245,585	245,585	-
Small cap	40,095	40,095	-
Mid cap	62,636	62,636	-
Large cap	185,230	185,230	-
International	90,501	90,501	-
Emerging markets	27,952	27,952	-
Alternatives	135,503	135,503	-
Investments held in trusts	809,840	809,840	-
Beneficial interests in remainder trusts	1,713,015	-	1,713,015
Beneficial interest in assets held by others	95,143	-	95,143
	<u>\$ 2,617,998</u>	<u>\$ 809,840</u>	<u>\$ 1,808,158</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, 2018 is attributed to an unrealized gain on investments held in remainder trusts of \$67,691, a distribution of (\$830) and present value discount of (\$105,652).

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE G - 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, 2018.

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
June 30, 2017	\$ 1,751,806	\$ 34,779	\$ 1,786,585
Additions	-	60,000	60,000
Change in value in split-interest agreements	(37,961)	-	(37,961)
Payments from remainder trust	(830)	-	(830)
Distributions	-	(1,654)	(1,654)
Change in value in beneficial interest	-	2,018	2,018
June 30, 2018	<u>\$ 1,713,015</u>	<u>\$ 95,143</u>	<u>\$ 1,808,158</u>

Fair value for the beneficial interests in remainder trusts is determined based on the fair value of the trusts' investments, less the present value of the expected future payouts and discounting to the present value of expected future benefit. 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, 2018

NOTE H - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30, 2018:

	<u>Estimated useful life</u>	
Leasehold and building improvements	3-10	\$ 31,123
Furniture and equipment	7	71,308
Computers and software	2-5	109,399
Vehicles	3-5	<u>193,918</u>
		405,748
Less accumulated depreciation and amortization		<u>(286,807)</u>
		<u><u>\$ 118,941</u></u>

At June 30, 2018 and 2017, depreciation and amortization expense was \$69,312 and \$92,011, respectively.

NOTE I - 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. In 2018, the Organization transferred an additional \$60,000 to the OCCF. The Statement of Financial Position as of June 30, 2018 and 2017 includes the beneficial interest in assets held by others of \$95,143 and \$34,779, respectively. The Statement of Activities for the years ended June 30, 2018 and 2017 include net investment activity of \$2,018 and \$4,962, respectively. World Neighbors received distributions in 2018 and 2017 related to these funds totaling \$1,654 and \$1,653, respectively.

In addition to the funds discussed above, the OCCF maintains another fund that has been contributed by various donors to the Foundation for the benefit of World Neighbors. In 2018, the OCCF received \$20,750 in additional donations to the fund. This fund is not included as an asset of World Neighbors. The earnings from the fund are paid to World Neighbors each year. For the years ended June 30, 2018 and 2017, World Neighbors received \$45,538 and \$45,467, respectively, from the fund. At June 30, 2018 and 2017, the fair market value of the fund was approximately \$959,386, and \$957,914, 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.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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 an asset of World Neighbors. The earnings from the fund are paid to World Neighbors each year. For the years ended June 30, 2018 and 2017, World Neighbors received \$15,773 and \$14,558, respectively, from the fund. As of June 30, 2018 and 2017, the fair market value of the fund was approximately \$328,133 and \$317,318, respectively. World Neighbors has no remainder interest in the corpus of the fund.

NOTE J – OPERATING LEASES

In July 2016, the Organization entered into a new, non-cancelable lease (for one office copier) that will expire in July 2021. This lease requires that the Organization pay all executory costs such as taxes, maintenance and insurance. Rental expense for this lease was \$3,014 for the year ended June 30, 2018. Future minimum lease payments under this operating lease that have remaining terms in excess of one year as of June 2018 are:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 2,619
2020	2,619
2021	<u>2,619</u>
	<u>\$ 7,857</u>

In July 2016, the Organization entered into a six-year rental agreement for its headquarters office in Oklahoma City. The lease extends through July 2022. Future minimum lease payments under this rental agreement in excess of one year as of June 30, 2018, are:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 34,440
2020	35,588
2021	36,736
2022	<u>37,884</u>
	<u>\$ 144,648</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE K - RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2018:

Planned giving	\$ 1,781,193
Restricted grants	864,175
Russell fund for facilities	104,318
Executive chair	795,098
Gary Wang fund for program work in Nepal	72,664
Other (the temporary portion of permanent endowments)	481,781
Total Temporarily Restricted Net Assets	<u>\$ 4,099,229</u>

Permanently restricted net assets consist of the following at June 30, 2018:

Special endowment - general support	\$ 451,189
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	80,385
Total Endowment Funds	<u>2,460,286</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>\$ 2,858,814</u>

NOTE L - 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.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE L - DONOR DESIGNATED ENDOWMENTS – Continued

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.

Therefore, the Organization classifies as permanently restricted net assets: 1) the 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 not to 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 funds' 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, through 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 nil as of June 30, 2018 and 2017.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE L - DONOR DESIGNATED ENDOWMENTS – Continued

Endowment net asset composition, by type of fund, as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,453,861	\$ 2,858,814	\$ 4,312,675

Changes in endowment net assets as of June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	\$ -	\$ -	\$ 1,300	\$ 1,300
Investment income	-	129,159	-	129,159
Investment gains	-	159,993	-	159,993
Transfers	-	(310,126)	60,000	(250,126)
Amounts appropriated for expenditures	-	(202,529)	-	(202,529)
Net changes	\$ -	\$ (223,503)	\$ 61,300	\$ (162,203)

Endowment net asset composition, by type of fund, as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,677,364	\$ 2,797,514	\$ 4,474,878

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE M – CONCENTRATIONS OF CREDIT RISK

World Neighbors maintains cash in U.S. bank deposit accounts that, 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 \$135,884 and \$105,698 at June 30, 2018 and 2017, respectively, and is included in unrestricted and restricted cash and cash equivalents in the Statement of Financial Position.

Concentrations of operations located outside the U.S. represent 14% of the carrying amount of net unrestricted assets; consisting primarily of cash, property and equipment. Foreign field program expenses represent 80% 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 Southeast Asia (Indonesia and Timor-Leste) are subject to risks inherent in operating in these sovereign states that are not typically associated with operations in the U.S. 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, 2018 are due from five donors. Twelve donors provided 45% of individual contributions revenues (30% of total contributions revenues) for the year ended June 30, 2018.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE N - 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 \$21,516 and \$22,553 for the years ended June 30, 2018 and 2017, respectively.

NOTE O – COMMITMENTS

The Organization has an employment agreement with its President and Chief Executive Officer, which extends through June 30, 2021. The aggregate commitment under this agreement was approximately \$618,420 at June 30, 2018.

SUPPLEMENTAL INFORMATION

WORLD NEIGHBORS, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2018

<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	\$ 810,593.28
USAID Foreign Assistance for Programs Overseas	98.001	AID-472-A-15-00001	536,294.20
Total Federal Awards Expended:			<u><u>\$ 1,346,887.48</u></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, 2018

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, 2018. 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).

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

The amount expended under the Agency for International Development's (USAID's) Cooperative Agreement (CA) Number AID-OFDA-G-14-00136 includes \$29,536.83 claimed as an indirect cost recovery using the *de minimis* rate of 10% of modified total direct costs.

The amount expended under USAID's CA Number AID-472-A-15-00001 includes \$48,447.17 claimed as an indirect cost recovery using the *de minimis* rate of 10% of modified total direct costs.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the financial statements of World Neighbors, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered World Neighbors Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of World Neighbors, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of World Neighbors, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether World Neighbors, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBC CPAs & Advisors

Oklahoma City, Oklahoma
October 18, 2018