



# WORLD NEIGHBORS

Inspiring People • Strengthening Communities

## AUDITED FINANCIAL STATEMENTS

**June 30, 2019 and 2018**

Audited Financial Statements  
WORLD NEIGHBORS, INC.  
JUNE 30, 2019 and 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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years 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. 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, 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 21, 2019

# WORLD NEIGHBORS, INC.

## Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 872,551	\$ 646,471
Accounts receivable:		
Bequests, net	2,000,300	20,000
Grants, net	211,235	378,945
United States federal funds	73,502	13,919
Prepaid expenses and other assets	76,841	59,286
<b>Total current assets</b>	<b>3,234,429</b>	<b>1,118,621</b>
Investments, at fair value	4,891,991	4,822,913
Assets held in trusts	811,498	809,840
Beneficial interest in remainder trusts	1,744,686	1,713,015
Beneficial interest in assets held by others	285,431	95,143
Property and equipment, net	136,183	118,941
<b>Total assets</b>	<b>\$11,104,218</b>	<b>\$8,678,473</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 38,646	\$ 23,855
Accrued liabilities	47,592	49,787
<b>Total current liabilities</b>	<b>86,238</b>	<b>73,642</b>
Actuarial liability - charitable gift annuities	203,527	244,715
Obligations - charitable remainder trusts	174,377	172,843
<b>Total liabilities</b>	<b>464,142</b>	<b>491,200</b>
Net assets:		
Without donor restrictions	3,416,545	1,229,230
With donor restrictions	7,223,531	6,958,043
<b>Total net assets</b>	<b>10,640,076</b>	<b>8,187,273</b>
<b>Total liabilities and net assets</b>	<b>\$11,104,218</b>	<b>\$8,678,473</b>

# WORLD NEIGHBORS, INC.

## Statement of Activities

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating activities:</b>			
<b>Revenues, gains and other support:</b>			
Contributions	\$ 3,362,594	\$ 38,867	\$ 3,401,461
United States federal funds	1,087,490	-	1,087,490
Private grants	-	447,171	447,171
Investment income and gains utilized	232,569	(168,000)	64,569
Other sources	41,103	-	41,103
Net assets released from restrictions	552,862	(552,862)	-
<b>Total revenues, gains and other support</b>	<b>5,276,618</b>	<b>(234,824)</b>	<b>5,041,794</b>
<b>Expenses:</b>			
Program services:			
Field programs	2,316,878	-	2,316,878
Public education	212,999	-	212,999
Supporting activities:			
Management and general	174,225	-	174,225
Fundraising	355,524	-	355,524
<b>Total expenses</b>	<b>3,059,626</b>	<b>-</b>	<b>3,059,626</b>
<b>Change in net assets from operating activities</b>	<b>2,216,992</b>	<b>(234,824)</b>	<b>1,982,168</b>
<b>Non-operating activities:</b>			
Endowment gifts	-	201,300	201,300
Investment return, net	43,021	168,781	211,802
Net investment gains (losses)	(12,698)	34,745	22,047
Change in value of split-interest agreements	-	35,486	35,486
Assets transferred to endowment funds	(60,000)	60,000	-
<b>Change in net assets from non-operating activities</b>	<b>(29,677)</b>	<b>500,312</b>	<b>470,635</b>
<b>Change in net assets</b>	<b>2,187,315</b>	<b>265,488</b>	<b>2,452,803</b>
<b>Net assets at beginning of year</b>	<b>1,229,230</b>	<b>6,958,043</b>	<b>8,187,273</b>
<b>Net assets at end of year</b>	<b>\$ 3,416,545</b>	<b>\$ 7,223,531</b>	<b>\$ 10,640,076</b>

# WORLD NEIGHBORS, INC.

## Statement of Activities

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating activities:</b>			
<b>Revenues, gains and other support:</b>			
Contributions	\$ 1,341,466	\$ 23,274	\$ 1,364,740
United States federal funds	1,346,888	-	1,346,888
Private grants	-	785,608	785,608
Investment income and gains utilized	237,499	(174,000)	63,499
Other sources	63,725	-	63,725
Net assets released from restrictions	1,024,633	(1,024,633)	-
<b>Total revenues, gains and other support</b>	<b>4,014,211</b>	<b>(389,751)</b>	<b>3,624,460</b>
<b>Expenses:</b>			
Program services:			
Field programs	2,793,155	-	2,793,155
Public education	237,180	-	237,180
Supporting activities:			
Management and general	185,248	-	185,248
Fundraising	403,310	-	403,310
<b>Total expenses</b>	<b>3,618,893</b>	<b>-</b>	<b>3,618,893</b>
<b>Change in net assets from operating activities</b>	<b>395,318</b>	<b>(389,751)</b>	<b>5,567</b>
<b>Non-operating activities:</b>			
Endowment gifts	-	1,300	1,300
Investment return, net	10,605	129,061	139,666
Net investment gains	5,829	121,154	126,983
Change in value of split-interest agreements	-	(37,515)	(37,515)
Assets transferred to endowment funds	(60,000)	60,000	-
<b>Change in net assets from non-operating activities</b>	<b>(43,566)</b>	<b>274,000</b>	<b>230,434</b>
<b>Change in net assets</b>	<b>351,752</b>	<b>(115,751)</b>	<b>236,001</b>
<b>Net assets at beginning of year</b>	<b>877,478</b>	<b>7,073,794</b>	<b>7,951,272</b>
<b>Net assets at end of year</b>	<b>\$ 1,229,230</b>	<b>\$ 6,958,043</b>	<b>\$ 8,187,273</b>

# WORLD NEIGHBORS, INC.

## Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services			Supporting Activities			
	Field	Public	Subtotal	Management		Subtotal	
	Programs	Education	Program	and General	Fundraising	Supporting	Total
			Services			Activities	
Salaries and related expenses:							
Salaries	\$ 876,526	\$ 97,423	\$ 973,949	\$ 97,334	\$ 164,232	\$ 261,566	\$ 1,235,515
Payroll taxes	56,837	6,036	62,873	6,809	10,944	17,753	80,626
Benefits	144,363	17,099	161,462	11,002	28,091	39,093	200,555
	1,077,726	120,558	1,198,284	115,145	203,267	318,412	1,516,696
Field programs	757,540	-	757,540	-	-	-	757,540
Contract services	44,544	9,456	54,000	2,598	57,653	60,251	114,251
Legal and accounting services	53,844	8,167	62,011	12,047	3,097	15,144	77,155
Travel	133,164	33,427	166,591	9,601	31,956	41,557	208,148
Office supplies	12,858	2,823	15,681	1,071	1,021	2,092	17,773
Telecommunications	24,142	4,995	29,137	2,253	1,321	3,574	32,711
Postage	2,044	313	2,357	368	4,149	4,517	6,874
Rent and occupancy	84,244	20,809	105,053	807	2,333	3,140	108,193
Office equipment and software	14,329	1,238	15,567	3,533	8,387	11,920	27,487
Advertising	-	-	-	-	998	998	998
In-kind advertising	-	-	-	-	8,549	8,549	8,549
Printing and publications	4,048	701	4,749	770	16,145	16,915	21,664
Depreciation and amortization	36,735	-	36,735	13,732	3,433	17,165	53,900
Dues	3,153	838	3,991	518	4,158	4,676	8,667
Training and meetings	22,518	5,628	28,146	-	-	-	28,146
Financial expenses	45,989	4,046	50,035	11,782	9,057	20,839	70,874
<b>Total expenses</b>	<b>\$ 2,316,878</b>	<b>\$ 212,999</b>	<b>\$ 2,529,877</b>	<b>\$ 174,225</b>	<b>\$ 355,524</b>	<b>\$ 529,749</b>	<b>\$ 3,059,626</b>

# WORLD NEIGHBORS, INC.

## Statement of Functional Expenses

For the Year Ended June 30, 2018

	Program Services			Supporting Activities			
	Field Programs	Public Education	Subtotal Program Services	Management and General	Fundraising	Subtotal Supporting Activities	Total
Salaries and related expenses:							
Salaries	\$ 932,026	\$ 103,649	\$ 1,035,675	\$ 96,553	\$ 161,886	\$ 258,439	\$ 1,294,114
Payroll taxes	56,246	6,037	62,283	6,264	11,067	17,331	79,614
Benefits	187,850	21,823	209,673	14,390	27,521	41,911	251,584
	1,176,122	131,509	1,307,631	117,207	200,474	317,681	1,625,312
Field programs	1,063,318	-	1,063,318	-	-	-	1,063,318
Contract services	50,476	11,216	61,692	3,335	45,164	48,499	110,191
In-kind contract services	-	-	-	-	932	932	932
Legal and accounting services	48,932	6,514	55,446	12,947	7,994	20,941	76,387
Travel	152,688	38,110	190,798	9,230	13,154	22,384	213,182
Office supplies	20,942	4,437	25,379	1,405	1,425	2,830	28,209
Telecommunications	23,711	4,626	28,337	2,625	1,386	4,011	32,348
Postage	3,398	343	3,741	917	3,586	4,503	8,244
Rent and occupancy	123,367	30,415	153,782	1,324	3,370	4,694	158,476
Office equipment and software	14,734	1,405	16,139	3,835	7,835	11,670	27,809
In-kind advertising	-	-	-	-	87,474	87,474	87,474
Printing and publications	5,088	975	6,063	1,493	18,124	19,617	25,680
Depreciation and amortization	47,492	-	47,492	17,457	4,363	21,820	69,312
Dues	4,475	1,177	5,652	802	3,866	4,668	10,320
Training and meetings	8,368	2,092	10,460	20	284	304	10,764
Financial expenses	50,044	4,361	54,405	12,651	3,879	16,530	70,935
<b>Total expenses</b>	<b>\$ 2,793,155</b>	<b>\$ 237,180</b>	<b>\$ 3,030,335</b>	<b>\$ 185,248</b>	<b>\$ 403,310</b>	<b>\$ 588,558</b>	<b>\$ 3,618,893</b>

# WORLD NEIGHBORS, INC.

## Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Change in net assets	\$ 2,452,803	\$ 236,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	53,900	69,312
Gain on disposal of property and equipment	(25,500)	(14,096)
Net realized and unrealized (gains) losses on investments	(40,361)	(176,177)
Cash received from temporarily restricted investments	-	310,126
Contributions restricted for permanent investments	(201,300)	(1,300)
Change in fair value of assets held in trusts	(1,658)	(1,946)
Change in fair value of beneficial interest in remainder trusts	(31,671)	38,791
Change in fair value of beneficial interest in assets held by others	(190,288)	(60,364)
Present value adjustments and actuarial liability for split-interest agreements	(39,654)	(15,518)
Changes in operating assets and liabilities:		
Accounts receivable	(1,872,173)	500,209
Prepaid expenses and other assets	(17,555)	6,741
Accounts payable and accrued liabilities	12,596	(22,783)
<b>Net cash provided by operating activities</b>	<b>99,139</b>	<b>868,996</b>
Cash flows from investing activities:		
Proceeds from sales of investments	1,709,117	1,293,981
Purchases of investments	(1,772,334)	(2,122,057)
Proceeds from disposals of real estate	-	366,812
Purchases of property and equipment	(71,142)	(15,748)
<b>Net cash used in investing activities</b>	<b>(134,359)</b>	<b>(477,012)</b>
Cash flows from financing activities:		
Proceeds from contributions for investment in endowment	261,300	61,300
<b>Net cash provided by financing activities</b>	<b>261,300</b>	<b>61,300</b>
Net increase in cash and cash equivalents	226,080	453,284
Cash and cash equivalents at beginning of year	646,471	193,187
Cash and cash equivalents at end of year	<b>\$ 872,551</b>	<b>\$ 646,471</b>

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### A. Organization

World Neighbors, Inc. (“World Neighbors” or “Organization”) is an international, non-governmental, development organization striving to eliminate hunger, poverty and disease in the most deprived rural villages on four continents. 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 eight international field offices (\*), which oversee the Organization’s program work in thirteen countries:

Latin America and the Caribbean	Africa	South Asia	Southeast Asia
Bolivia	Burkina Faso*	India	Indonesia*
Guatemala*	Kenya*	Nepal*	Timor-Leste*
Haiti*	Mali		
Peru*	Tanzania		
	Uganda		

### B. Summary of Significant Accounting Policies

#### Change in account principle

Effective July 1, 2018, World Neighbors adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The ASU (a) replaces the historical 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*; (b) 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; (c) requires expenses to be presented by nature and function; as well as, an analysis of the allocation of these expenses and (d) 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.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the periods presented. World Neighbors’ unrestricted net assets are now

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

reported as net assets without donor restrictions. World Neighbors' temporarily and permanently restricted net assets are now reported as net assets with donor restrictions.

### **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 asset classifications**

For reporting purposes, the Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") that require 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 two categories of net assets – net assets without donor restrictions and net assets with donor restrictions. Descriptions of the two net asset categories, and the type of transactions affecting each category, follow.

*Net assets without donor restrictions* 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.

*Net assets with donor restrictions* may be temporarily or permanently restricted.

- Temporarily restricted 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, the associated amount is reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.
- Permanently restricted assets are limited by donor-imposed restrictions that require the principle be maintained in perpetuity but permit the income therefrom to be utilized for operating or other donor-imposed purposes.

### **Revenue recognition**

The Organization applies the guidance of FASB 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

# **WORLD NEIGHBORS, INC.**

## **Notes to Financial Statements**

### **For the Years Ended June 30, 2019 and 2018**

received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions.

When a temporary restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Contributions with restrictions that are fulfilled in the period in which the contributions are received are recorded as contributions without donor restrictions 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 United States of America ("U.S.") 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.

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 and are to be invested as part of World Neighbors' endowment portfolio.

Certain programs of the Organization are funded 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.

#### **Contributed services**

Unpaid volunteers make significant contributions of their time in the Organization's programs. The value of these services is not recognized in the financial statements, since they do not meet certain applicable criteria specified under guidance issued under the FASB Accounting Standards Codification, Topic 958, *Not-for-Profit Entities*.

#### **Measure of operations**

The Organization includes in its definition of operating activities all revenues and expenses that are an integral part of its programs and supporting activities, including an authorized investment income spending allocation and other investment funds distributed. This measure of operations provides a presentation that depicts the manner in which the Organization manages its financial activities. Investment returns, including interest and dividends, net realized and unrealized gains

# **WORLD NEIGHBORS, INC.**

## **Notes to Financial Statements**

**For the Years Ended June 30, 2019 and 2018**

and losses earned, contributions to endowment funds, changes in the value of interests in- and investment returns on- assets held under split-interest agreements and other nonrecurring items are recognized as non-operating activities.

### **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.

### **Accounts receivable**

Grant receivables consist of amounts due over multiple years from private foundations and other organizations, 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 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 net assets with donor restrictions if (a) the terms of the gift (that gave rise to the investment) or applicable laws require such amounts be added to the permanent endowment principal or (b) if the terms of the gift, or applicable laws, impose restrictions on the use of the income. Losses on investments of permanent endowments reduce net assets with donor restrictions.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

In all other cases, income and gains on investments are reported as increases in net assets without donor restrictions.

### **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 net assets without donor restrictions 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 these temporarily restricted assets with donor restrictions to net assets without restrictions 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 years ended June 30, 2019 and 2018.

### **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 recorded as *obligations – charitable remainder trusts* in the Statements of Financial Position.

World Neighbors also administers numerous charitable gift annuities. Liabilities to the lead beneficiaries of these annuity contracts are recorded as *actuarial liability – charitable gift annuities* in the Statements of Financial Position.

### **Beneficial interest in remainder trusts**

Beneficial interest in remainder trusts represents 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

For the Years Ended June 30, 2019 and 2018

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 Statements of Activities primarily consist of gains on the disposal of assets and royalty income.

### **Advertising**

All costs associated with advertising are expensed as incurred.

### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change include the valuation of investments, assets held in trusts, beneficial interests in remainder trusts and contributions receivable. Investments, assets held in trusts and beneficial interests in remainder trusts, 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 Statements 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, assets held in trusts, beneficial interests in remainder trusts and other receivables is based on consideration of all relevant available information and an analysis of the collectability of accounts receivable, which arise primarily from the USAID, private 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 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, 2019 and 2018 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

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

June 30, 2016, 2017 and 2018 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 Statements of Activities and in detail in the Statements of Functional Expenses.

Costs are directly allocated to functional categories where a clear relationship exists. World Neighbors' field offices exist for the direct mission purpose of international development project implementation and management. Accordingly, all costs incurred by field offices are considered program services (field program or public education) for purposes of functional allocation classification as reported in the Statements of Activities and Functional Expenses.

Other costs incurred at the World Neighbors headquarters level are allocated among program, management and general and fundraising categories. Expenses have been allocated based on direct cost allocations, employee functional time distribution and indirect cost allocation estimates.

### Subsequent events

Management has evaluated subsequent events through October 21, 2019, the date the financial statements were available to be issued.

## C. Cash and Cash Equivalents

Cash and cash equivalents of \$872,551 and \$646,471 as of June 30, 2019 and 2018, respectively, were held by the Organization in support of the following:

	2019	2018
Restricted:		
Programs	\$ 380,481	\$ 282,171
Disaster relief	7,000	4,000
Endowment	1,300	-
Subtotal - restricted cash	388,781	286,171
Unrestricted	483,770	360,300
	<u>\$ 872,551</u>	<u>\$ 646,471</u>

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### D. Accounts Receivable

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Receivables in less than one year:		
Bequests	\$ 2,024,000	\$ 20,000
Grants	206,306	269,960
United States federal funds	73,502	13,919
	<hr/>	<hr/>
Receivables in less than one year	2,303,808	303,879
Receivables in one to five years	30,000	165,402
	<hr/>	<hr/>
Gross accounts receivable	2,333,808	469,281
Less:		
Allowance for doubtful accounts	(47,331)	(43,536)
Discounts to net present value	(1,440)	(12,881)
	<hr/>	<hr/>
	\$ 2,285,037	\$ 412,864

At June 30, 2019, 76% of the grants and federal funds receivables are restricted for the use of specific programs and 100% of the bequest receivable is unrestricted for the operations of World Neighbors.

### 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% to 50%. At June 30, 2019, the overall allocation of World Neighbors' investments was 51% equities, 36% fixed income, 3% asset allocation mutual funds, 7% alternative mutual funds and 3% cash. At June 30, 2018, the overall allocation of World Neighbors' investments was 57% equities, 30% fixed income, 7% alternative mutual funds and 6% cash.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Investments consist of the following at June 30:

	2019 Carrying Amount	2018 Carrying Amount
Cash equivalent funds	\$ 166,992	\$ 288,680
Securities:		
Common and preferred stocks	213,147	249,960
Mutual funds - equities	2,280,904	2,509,344
Mutual funds - fixed income	1,765,559	1,413,646
Mutual funds - asset allocation	132,084	-
Mutual funds - alternatives	333,305	361,283
	<u>\$ 4,891,991</u>	<u>\$ 4,822,913</u>

### F. Split-Interest Agreements

#### (a) Charitable Remainder Trusts

World Neighbors is the trustee of various charitable remainder trusts, which are subject to the terms of trust agreements entered into with the donor. 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 Statements of Activities as a contribution with donor restrictions in the period the trust is established. There were no new contributions for the years ended June 30, 2019 and 2018.

Assets held in the charitable remainder trusts totaled \$811,498 and \$809,840 for the years ended June 30, 2019 and 2018, respectively, and are reported in the Organization's Statements of Financial Position as *assets held in trusts*. 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 (\$174,377 and \$172,843 at June 30, 2019 and 2018, respectively) is calculated using discount rates ranging from 3.969% to 7% based on the date of the contributions, the mortality tables and the U.S. Treasury Bond rate.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Assets held in trusts, which include cash equivalent funds and securities, at fair value, consist of the following at June 30:

	2019	2018
Cash equivalent funds	\$ 36,806	\$ 22,338
Securities:		
Mutual funds - equities	408,452	406,414
Mutual funds - fixed income	291,495	245,585
Mutual funds - asset allocation	42,701	-
Mutual funds - alternatives	32,044	135,503
	<u>\$ 811,498</u>	<u>\$ 809,840</u>

### (b) Charitable Gift Annuities

The Organization is also obligated to pay annuitants under charitable gift annuities. The assets held under these agreements are reported in the Statements of Financial Position as a component of investments. Assets held in trust under gift annuities are carried at fair value using the methods described in the fair value footnote for investments, and amounted to \$251,846 and \$305,246 as of June 30, 2019 and 2018, respectively. There were no new contributions for the years ended June 30, 2019 and 2018.

On an annual basis, the Organization revalues the related liability based on actuarial assumptions. The liability is reported as *actuarial liability - charitable gift annuities* in the Statements of Financial Position. The present value of the estimated future payments (\$203,527 and \$244,715 as of June 30, 2019 and 2018, respectively) are calculated using discount rates ranging from 4.6% to 8.6% and applicable mortality tables.

### G. Beneficial Interest in Remainder Trusts

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 years ended June 30, 2019 and 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 \$1,744,686 and \$1,713,015 at June 30, 2019 and 2018, respectively.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### H. Beneficial Interest in Assets Held by Others

#### (a) The Oklahoma City Community Foundation, Inc. (“OCCF”)

The Statements of Financial Position as of June 30, 2019 and 2018 include the beneficial interest in assets held by others of \$285,431 and \$95,143, respectively. The balances consist of:

	2019	2018
Permanently restricted endowment	\$ 160,493	\$ 95,143
Board-designated reserve funds	124,938	-
	<u>\$ 285,431</u>	<u>\$ 95,143</u>

- During the year ended June 30, 2010, World Neighbors transferred \$20,385 to the OCCF and specified itself as the beneficiary of the endowment fund. During the years ended June 30, 2019 and 2018, the Organization transferred \$60,000 and \$60,000, respectively, to the fund. In 2019 and 2018, World Neighbors received distributions from the fund totaling \$1,912 and \$1,654, respectively.
- During the year ended June 30, 2019, World Neighbors created an unrestricted, spendable fund at the OCCF by transferring \$125,000 of board-designated funds. World Neighbors is the sole beneficiary of this unrestricted reserve fund. There were no distributions in 2019.

The Statements of Activities for the years ended June 30, 2019 and 2018 include net investment activity of \$7,262 and \$2,018, respectively.

In addition to the funds discussed above, the OCCF maintains the World Neighbors Fund (the “WN Fund”) that has been contributed to by various donors to the OCCF for the benefit of World Neighbors. The WN Fund is an endowment fund. For the years ended June 30, 2019 and 2018, the OCCF received \$20,250 and \$20,750, respectively, in additional donations to the WN Fund. The fair market value of the WN Fund was approximately \$999,797 and \$959,386 as of June 30, 2019 and 2018, respectively.

- The OCCF maintains variance power over the WN Fund. 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 has no remainder interest in the corpus of the WN Fund and does not include it as an asset in its financial statements.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

- Annual distributions from the WN Fund are paid to World Neighbors according to the OCCF's spending policy. For the years ended June 30, 2019 and 2018, World Neighbors received \$45,870 and \$45,538, respectively.

### **(b) The Oklahoma Methodist Foundation ("OMF")**

The OMF maintains an endowment fund that has been contributed by a family to the OMF for the benefit of World Neighbors. As of June 30, 2019 and 2018, the fair market value of the fund was approximately \$328,526 and \$328,133, respectively. The earnings from the fund are paid to World Neighbors each year. For the years ended June 30, 2019 and 2018, World Neighbors received \$16,099 and \$14,558, respectively. World Neighbors has no remainder interest in the corpus of the fund and; therefore, does not include it as an asset in its financial statements.

## **I. Fair Value Measurements**

The Organization values its investments in accordance with GAAP and consistent with the FASB's official pronouncement on *Fair Value Measurements* for financial assets and liabilities. The pronouncement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value utilize relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are as follows:

**Level 1** Inputs are quoted prices or published net asset values (unadjusted), in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

**Level 2** Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3** Inputs are unobservable inputs for the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, World Neighbors utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible; as well as, considers nonperformance risk in its assessment of fair value.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

The following table presents the Organization's investments at fair value, measured on a recurring basis, as of June 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	\$ 166,992	\$ -	\$ -	\$ 166,992
Common and preferred stocks:				
Energy	12,607	-	-	12,607
Materials	7,064	-	-	7,064
Industrials	18,021	-	-	18,021
Consumer discretionary	25,042	-	-	25,042
Consumer staples	16,479	-	-	16,479
Healthcare	23,830	-	-	23,830
Financials	28,970	-	-	28,970
Information technology	47,405	-	-	47,405
Communication services	23,442	-	-	23,442
Utilities	6,606	-	-	6,606
Real estate	3,680	-	-	3,680
Mutual funds:				
Fixed income	1,765,559	-	-	1,765,559
Small cap	160,893	-	-	160,893
Mid cap	107,909	-	-	107,909
Large cap	1,236,280	-	-	1,236,280
International	476,451	-	-	476,451
Emerging markets	218,544	-	-	218,544
Real estate	80,828	-	-	80,828
Asset allocation	132,084	-	-	132,084
Alternatives	333,305	-	-	333,305
	<b>\$ 4,891,991</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,891,991</b>

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

The following table presents the Organization's investments at fair value, measured on a recurring basis, as of June 30, 2018:

	Level 1	Level 2	Level 3	Fair Value
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
Communication 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>\$ -</u>	<u>\$ -</u>	<u>\$ 4,822,913</u>

Fair value for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

The following table presents financial instruments in (a) assets held in trust, (b) beneficial interests in remainder trusts and (c) assets held by others, measured on a recurring basis, as of June 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
<b>Assets held in trusts:</b>				
Cash and cash equivalents	\$ 36,806	\$ -	\$ -	\$ 36,806
<b>Mutual funds:</b>				
Fixed income	291,495	-	-	291,495
Small cap	37,867	-	-	37,867
Mid cap	69,818	-	-	69,818
Large cap	187,456	-	-	187,456
International	85,628	-	-	85,628
Emerging markets	27,683	-	-	27,683
Asset allocation	42,701	-	-	42,701
Alternatives	32,044	-	-	32,044
	811,498	-	-	811,498
<b>Beneficial interest in:</b>				
Remainder trusts	-	-	1,744,686	1,744,686
Assets held by others	-	-	285,431	285,431
	\$ 811,498	\$ -	\$ 2,030,117	\$ 2,841,615

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

The following table presents financial instruments in (a) assets held in trust, (b) beneficial interests in remainder trusts and (c) assets held by others, measured on a recurring basis, as of June 30, 2018:

	Level 1	Level 2	Level 3	Fair Value
<b>Assets held in trusts:</b>				
Cash and cash equivalents	\$ 22,338	\$ -	\$ -	\$ 22,338
<b>Mutual funds:</b>				
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
	809,840	-	-	809,840
<b>Beneficial interest in:</b>				
Remainder trusts	-	-	1,713,015	1,713,015
Assets held by others	-	-	95,143	95,143
	\$ 809,840	\$ -	\$ 1,808,158	\$ 2,617,998

Fair value for assets held in trust are determined by reference to quoted market prices and other relevant information generated by market transactions. 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, 2019 and 2018.

The change in value of the beneficial interest in remainder trusts is a component of the “change in value of split-interest agreements” in net assets with donor restrictions on the Statements of Activities. The net change for the year ending June 30, 2019 is attributed to an unrealized gain on investments held in remainder trusts of \$51,923, a present value discount of (\$19,366) and a distribution of (\$886).

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 present value discount of (\$105,652) and a distribution of (\$830).

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Fair value for the beneficial interest 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. Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	<b>Beneficial Interest in Remainder Trusts</b>	<b>Beneficial Interest in Assets Held by Others</b>	<b>Fair Value</b>
<i>Balance at June 30, 2017</i>	\$ 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
Net changes	(38,791)	60,364	21,573
<i>Balance at June 30, 2018</i>	1,713,015	95,143	1,808,158
Additions	-	185,000	185,000
Change in value in split-interest agreements	32,557	-	32,557
Payments from remainder trust	(886)	-	(886)
Distributions	-	(1,912)	(1,912)
Change in value in beneficial interest	-	7,200	7,200
Net changes	31,671	190,288	221,959
<i>Balance at June 30, 2019</i>	\$ 1,744,686	\$ 285,431	\$ 2,030,117

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### J. Property and Equipment

Property and equipment consists of the following at June 30:

<b>Asset classification</b>	<b>Estimated useful life (years)</b>	<b>2019</b>	<b>2018</b>
Vehicles	3-5	\$ 234,752	\$ 193,918
Computers and software	2-5	100,357	109,399
Furniture and equipment	7	82,183	71,308
Leasehold and building improvements	3-10	32,625	31,123
		449,917	405,748
Less accumulated depreciation and amortization		(313,734)	(286,807)
		<u>\$ 136,183</u>	<u>\$ 118,941</u>

For the years ended June 30, 2019 and 2018, depreciation and amortization expense was \$53,900 and \$69,312, respectively.

### K. Operating Leases

In July 2016, the Organization entered into a non-cancelable lease for office equipment that will expire in July 2021. This lease 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 June 30, 2019 are:

<b>Year ending June 30,</b>	<b>Amount</b>
2020	\$ 2,619
2021	2,619
	<u>\$ 5,238</u>

Rental and property tax expense for this lease was \$3,003 and \$3,014 for the years ended June 30, 2019 and 2018, respectively.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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 that have remaining terms in excess of one year as of June 30, 2019, are:

Year ending June 30,	Amount
2020	\$ 35,588
2021	36,736
2022	37,884
	<u>\$ 110,208</u>

Rental expense for this lease was \$34,344 and \$33,196 for the years ended June 30, 2019 and 2018, respectively.

### L. Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at June 30:

	2019	2018
Available for operations	\$ 2,675,431	\$ 498,886
Board-designated funds:		
John L. Peters Funds - operating reserves	604,931	611,403
Investment in property and equipment, net	136,183	118,941
	<u>\$ 3,416,545</u>	<u>\$ 1,229,230</u>

The Board of Trustees of the Organization has established operating reserves with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### M. Net Assets With Donor Restrictions

Net assets with donor restrictions are comprised of temporarily restricted and permanently restricted net assets.

	2019	2018
Temporarily restricted net assets with donor restrictions consist of the following at June 30, 2019 and 2018:		
Planned giving	\$ 1,806,072	\$ 1,781,193
Restricted grants	811,730	864,175
Executive chair - support for the CEO position	803,075	795,098
Russell fund - facilities	105,580	104,318
Gary Wang fund - program work in Nepal	73,504	72,664
Other (the temporary portion of permanent endowments)	503,456	481,781
Total temporarily restricted net assets with donor restrictions	4,103,417	4,099,229
Permanently restricted net assets with donor restrictions consist of the following at June 30, 2019 and 2018:		
World Neighbors - general support	1,171,613	971,613
Overseas partnership - overseas programs	688,265	688,265
Special endowment - general support	452,489	451,189
International programs charitable endowment - overseas support	268,834	268,834
Assets transferred to and held by others - general support	140,385	80,385
Total endowment funds	2,721,586	2,460,286
Munds charitable trust - general support	395,249	395,249
Smith charitable trust - general support	3,279	3,279
Total perpetual trusts	398,528	398,528
Total permanently restricted net assets with donor restrictions	3,120,114	2,858,814
Total net assets with donor restrictions	\$ 7,223,531	\$ 6,958,043

# **WORLD NEIGHBORS, INC.**

## **Notes to Financial Statements**

**For the Years Ended June 30, 2019 and 2018**

### **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.

Therefore, the Organization classifies as permanently restricted net assets with donor restrictions: 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.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### 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, there were no deficiencies of this nature reported in permanently restricted net assets with donor restrictions as of June 30, 2019 and 2018:

		Accumulated		
		Gains		
2019	Original Gift	(Losses)	Deficiency	Total
Permanently restricted endowment funds:				
World Neighbors endowment	\$ 1,171,613	\$ 166,312	\$ -	\$1,337,925
Overseas partnership endowment	688,265	83,678	-	771,943
Special endowment	452,489	41,852	-	494,341
International programs charitable endowment	268,834	54,689	-	323,523
Assets transferred to and held by others	140,385	20,108	-	160,493
Perpetual trusts:				
Munds charitable trust	395,249	123,207	-	518,456
Smith charitable trust	3,279	13,610	-	16,889
	<u>\$ 3,120,114</u>	<u>\$ 503,456</u>	<u>\$ -</u>	<u>\$3,623,570</u>

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

<b>2018</b>	<b>Original Gift</b>	<b>Accumulated Gains (Losses)</b>	<b>Deficiency</b>	<b>Total</b>
Permanently restricted endowment funds:				
World Neighbors endowment	\$ 971,613	\$ 154,632	\$ -	\$1,126,245
Overseas partnership endowment	688,265	83,084	-	771,349
Special endowment	451,189	35,389	-	486,578
International programs charitable endowment	268,834	52,145	-	320,979
Assets transferred to and held by others	80,385	14,758	-	95,143
Perpetual trusts:				
Munds charitable trust	395,249	128,751	-	524,000
Smith charitable trust	3,279	13,022	-	16,301
	<u>\$ 2,858,814</u>	<u>\$ 481,781</u>	<u>\$ -</u>	<u>\$3,340,595</u>

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Endowment-defined net assets with donor restrictions composition, by type of fund, as of June 30, 2019 and 2018 are, as follows:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions		
		Temporarily Restricted	Permanently Restricted	Total
<i>Balance at June 30, 2017</i>	\$ -	\$ 1,677,364	\$ 2,797,514	\$4,474,878
Contributions	-	-	1,300	1,300
Investment return, net	-	260,623	-	260,623
Transfers	-	(310,126)	60,000	(250,126)
Amounts appropriated for expenditures	-	(174,000)	-	(174,000)
Net changes	-	(223,503)	61,300	(162,203)
<i>Balance at June 30, 2018</i>	-	1,453,861	2,858,814	4,312,675
Contributions	-	-	201,300	201,300
Investment return, net	-	196,754	-	196,754
Transfers	-	-	60,000	60,000
Amounts appropriated for expenditures	-	(165,000)	-	(165,000)
Net changes	-	31,754	261,300	293,054
<i>Balance at June 30, 2019</i>	\$ -	\$ 1,485,615	\$ 3,120,114	\$4,605,729

### O. 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 \$179,947 and \$135,884 at June 30, 2019 and 2018, respectively, and is included in cash and cash equivalents in the Statements of Financial Position.

# **WORLD NEIGHBORS, INC.**

## **Notes to Financial Statements**

### **For the Years Ended June 30, 2019 and 2018**

Concentrations of operations located outside the U.S. represent 9% of the carrying amount of net unrestricted assets; consisting primarily of cash, property and equipment. Foreign field program expenses represent 79% and 80% of the total field program expenses reported in the Statements of Functional Expenses for the years ended June 30, 2019 and 2018, respectively.

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 (a) social, political and economic instability, (b) inflation, (c) unexpected changes in regulatory requirements and (d) fluctuations in foreign exchange rates. Any of these developments, or others, could adversely affect World Neighbors' financial condition and activities.

Grants and U.S. federal funds receivables at June 30, 2019 are due from three private institutions and the USAID. One donor family provided 43% of individual contributions revenues for the year ended June 30, 2019.

Grants and U.S. federal funds receivables at June 30, 2018 are due from four private institutions and the USAID. Twelve donors provided 45% of individual contributions revenues for the year ended June 30, 2018.

#### **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 \$18,746 and \$21,516 for the years ended June 30, 2019 and 2018, respectively.

#### **Q. 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 \$420,524 at June 30, 2019.

# WORLD NEIGHBORS, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### R. Liquidity

The following reflects World Neighbors' financial assets at June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

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Financial assets, at June 30, 2019	\$ 10,915,236
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(4,076,275)
Subject to appropriation and satisfaction of donor restrictions	(811,730)
Investments held in annuities and trusts	(2,268,824)
Board-designations:	
Amounts set aside for liquidity reserve	(604,931)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,153,476</u>

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 483,770
Accounts receivable	2,097,502
Operating investments	393,504
Distributions from assets held under split-interest agreements	3,300
Distributions from beneficial interests in assets held by others	7,900
Endowment spending-rate distributions and appropriations	167,500
	<u>\$ 3,153,476</u>

As part of World Neighbors' liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

## **SUPPLEMENTAL INFORMATION**

**WORLD NEIGHBORS, INC.**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Other Identification Number</b>	<b>Federal Expenditures</b>
<b><u>Agency for International Development</u></b>			
USAID Foreign Assistance for Programs Overseas	98.001	AID-472-A-15-00001	\$ 511,531.83
USAID Foreign Assistance for Programs Overseas	98.001	720FDA18GR00225	443,877.92
USAID Foreign Assistance for Programs Overseas	98.001	AID-OFDA-G-14-00136	<u>132,080.04</u>
<b>Total Federal Awards Expended</b>			<b><u>\$ 1,087,489.79</u></b>

# WORLD NEIGHBORS, INC.

## Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

### A. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of World Neighbors, Inc. ("World Neighbors") under programs of the federal government for the year ended June 30, 2019. 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, it is not intended to and does not present the financial position, change in net assets, or cash flows of World Neighbors.

### B. Basis of Accounting

Expenditures under the United States Agency for International Development's cooperative agreements are reported on the Schedule on the accrual basis of accounting, consistent with World Neighbors' basic financial statements.

### C. Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of World Neighbors' program costs. Total program costs, including World Neighbors' portion, are more than shown.

### D. Indirect Cost Rate

The amounts expended include an indirect cost recovery using the *de minimis* rate of 10% of modified total direct costs. Indirect cost recovery amounts for the year ended June 30, 2019 were:

<b>Cooperative Agreement Identification Number</b>	<b>2019</b>
AID-472-A-15-00001	\$ 42,713.78
720FDA18GR00225	34,022.76
AID-OFDA-G-14-00136	7,032.76
	<u>\$ 83,769.30</u>



**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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2019.

**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 21, 2019