

COURAGE WORLDWIDE, INC.

FINANCIAL STATEMENTS

With Independent Auditor's Report Thereon

DECEMBER 31, 2015

COURAGE WORLDWIDE, INC.

Financial Statements
December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Courage Worldwide, Inc.
Rocklin, California

We have audited the accompanying financial statements of the Courage Worldwide, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows, and functional expenses 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. 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.

Board of Directors
Courage Worldwide, Inc.
Rocklin, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Courage Worldwide, Inc. as of December 31, 2015, and the related statements of activities, cash flows, and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Fechter & Company,
Certified Public Accountants

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California
March 15, 2016

COURAGE WORLDWIDE, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

CURRENT

Cash and cash equivalents	\$	280,291
Accounts receivable		555
Grants receivable		18,455
Prepaid expenses		23,195
Inventory		32,028

Total current assets 354,524

Fixed assets, less accumulated depreciation		1,726,064
Deposits		10,188

Total Assets \$ 2,090,776

LIABILITIES AND NET ASSETS

CURRENT

Accounts payable	\$	30,211
Accrued payroll		17,400
Accrued vacation		12,048
Current portion of long-term debt		104,476

Total current liabilities 164,135

LONG-TERM

Long-term debt, less current		516,395
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Total Liabilities 680,530

NET ASSETS

Unrestricted		1,410,246
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Total Liabilities and Net Assets \$ 2,090,776

COURAGE WORLDWIDE, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

SUPPORT AND REVENUE

Donations	\$ 840,434
Program revenues	552,315
In-kind donations	671,309
Investment income	115
Fund-raising	272,178
Grant income	35,000
Other income	2,315

Total Support and Revenues 2,373,666

EXPENSES

Program services	1,638,966
Support Services:	
Administration	268,686
Fund-raising	256,767

Total Expenses 2,164,419

Change in Net Assets 209,247

Net assets, beginning of year 1,200,999
Net assets, end of the year \$ 1,410,246

COURAGE WORLDWIDE, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 209,247
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	56,608
In-kind donated fixed assets	(184,828)
Loss on sale or disposal of assets	2,261
Increase/(Decrease) in:	
Accounts receivable	25,517
Grants receivable	33,829
Prepaid expenses	19,107
Inventory	(22,888)
Deposits	465
Accounts payable	(9,051)
Accrued payroll	(15,474)
Accrued vacation	(1,213)

NET CASH PROVIDED BY OPERATING ACTIVITIES 113,580

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	<u>(259,517)</u>
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NET CASH (USED BY) INVESTING ACTIVITIES (259,517)

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of long term debt	191,667
Principal payment of long term notes payable	<u>(38,263)</u>

NET CASH USED BY FINANCING ACTIVITIES 153,404

NET INCREASE IN CASH AND CASH EQUIVALENTS 7,467

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 272,824

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 280,291

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	<u><u>\$ 27,334</u></u>
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NON-CASH INVESTING ACTIVITIES

Fixed assets purchased with contracts payable obligation	<u><u>\$ 111,673</u></u>
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COURAGE WORLDWIDE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program	Administration	Fund-raising	Total Expenses
Payroll	\$ 653,288	\$ 113,404	\$ 62,568	\$ 829,260
Payroll taxes and benefits	137,259	14,053	7,753	159,065
Marketing	29,510	14,497	7,998	52,005
Occupancy	79,289	4,740	2,615	86,644
Mortgage interest	13,963	7,363	4,062	25,388
In-kind services	247,350	51,773	28,564	327,687
In-kind goods	68,115	19	10	68,144
Professional fees	5,644	23,416	1,642	30,702
Other administrative expenses	13,596	4,406	2,431	20,433
Office expense	25,179	9,652	5,325	40,156
Information technology	5,870	2,763	731	9,364
Depreciation expense	50,917	2,744	1,514	55,175
Education	38,884	2,124	1,172	42,180
Licenses and fees	3,054	438	241	3,733
Insurance	13,231	5,960	3,288	22,479
Travel and meetings	18,899	8,574	4,730	32,203
Resident expense	109,874	-	-	109,874
Special Events	53,549	-	121,848	175,397
Other program (charitable)	1,004	-	-	1,004
Development	12,888	-	-	12,888
Tanzania expense	54,997	-	-	54,997
Tanzania depreciation expense	1,433	-	-	1,433
Non-mortgage interest	1,173	499	275	1,947
Loss on sale	-	2,261	-	2,261
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,638,966</u>	<u>\$ 268,686</u>	<u>\$ 256,767</u>	<u>\$ 2,164,419</u>

COURAGE WORLDWIDE, INC.

Notes to Financial Statements December 31, 2015

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Operations- Courage Worldwide (CWW) (formerly Courage to Be You, Inc.) is an international, 501(c)(3) nonprofit organization founded in 2005 in California to simply help people find their purpose. Then in 2007, a focus was given to building homes for children rescued from sex trafficking so they too had resources and the opportunity to be and do all they were created to be and do.

The commercial sex trafficking of women and children is a profitable business of epidemic proportions. Globally, there are an estimated 4.5 million victims held in this form of modern day slavery. In our own backyard, hundreds of thousands of U.S. children are also used as a commodity for the profit of one and the pleasure of another. Worldwide there is a severe lack of services and homes for these highly traumatized children. CWW's vision is to change that fact by building a restorative home for victims of this crime in every city around the world that needs one. We call our homes Courage Houses.

Currently, two Courage Houses are open serving minor victims of this population, one in Northern California and one in Tanzania, Africa. Courage House is one of four licensed, long term residential treatment homes of its kind for minors in the entire state of California, and one of few in the entire U.S. and the only one in Tanzania, Africa. Because of the lack of beds, Courage House has turned down hundreds of children wanting to be placed at Courage House, as well as, telling caring individuals who want to build Courage homes, "Wait." To reverse this trend and accelerate the opening of more homes, CWW plans to expand existing campuses, as well as, prototype and replicate Courage House worldwide, creating a network of consistent, quality care homes specific to this population. The expansion of the current homes is set for fall 2016 and the prototype to be released in late 2016, with the firsts in Texas and Mississippi.

CWW currently employs approximately thirty-five people and continues to utilize an army of volunteers to execute its vision and mission. CWW has certified over fifteen hundred volunteers through an extensive twenty-four hour training curriculum. Tens of thousands of individuals have attended hundreds of CWW sponsored trainings and awareness events. Attendees have included members of Congress, state lawmakers, foreign government leaders, educators, mental health professionals, law enforcement officers, health care and social workers, church leaders, and juvenile justice personnel. CWW's existing training materials, along with newly developed curriculum, are being converted to an online format with plans to translate into multiple languages. CWW is committed to educating communities around the world as to the nature and effects of this crime against children so that it can execute its mission and vision to build Courage Houses in every city around the world that needs one. CWW is the official training partner of the California Highway Patrol.

Phenomenal, local community support for our efforts is reflected in the 80,000 volunteer hours and over \$2,415,000 of in-kind and professional services over the last 10 years. CWW has achieved a national and global footprint with 100% of states in the United States and 190 countries throughout the world being exposed to the vision and mission of the organization through website and social media resources.

COURAGE WORLDWIDE, INC.

**Notes to Financial Statements
December 31, 2015**

NOTE 1 -SIGNIFICANT ACCOUNTING POLICIES, Continued

CWW is a recognized anti-trafficking leader and tireless victim advocate. The organizational focus has been and will remain on victim rescue and restoration. However, CWW also participates in prevention programs in schools, provides justice for victims by partnering with law enforcement to prepare victim/witnesses for trial, decreases demand with awareness and educational campaigns, and helps to change policy and strengthen laws by serving on numerous task forces and national boards around the U.S. while training communities to protect and restore its most vulnerable children.

CWW's international headquarters are located in Sacramento, California with regional offices set to open in Dallas, Texas, and Jackson, Mississippi during 2016.

Basis of Presentation - Substantially all of the Organization's revenues result from contributions, bequests, and special grants; which are recognized as income when received and are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. In addition, unconditional promises to give are recorded in the year made, less an allowance for doubtful collections. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Expenditures are recognized when the liability is incurred, rather than when cash is disbursed.

The financial statements of the Organization have been prepared on the accrual basis of accounting and maintained in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

Concentration of Credit Risk - This is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization's bank balances are insured up to \$250,000. As of December 31, 2015, the Organization had bank balances of \$241,080, all of which were insured.

Grants Receivable - CWW received grant funds from county agencies based on the number of residents each month and agreements with those counties. There have been no instances of those funds being uncollectible; therefore, no allowance for uncollectible accounts has been recorded in these financial statements.

Inventory - Inventory consists of books related to the Organization's cause. It is stated at average cost or market value.

Prepaid expenses - Prepaid expenses consist primarily of prepaid insurance.

COURAGE WORLDWIDE, INC.

**Notes to Financial Statements
December 31, 2015**

NOTE 1 -SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment - Items with a cost in excess of \$1,500 and donated assets with a fair market value in excess of \$1,500 are capitalized. Depreciation is computed under the straight-line method over the various economic lives of the assets, generally 5-7 years for equipment and 15-40 years for leasehold improvements. Depreciation for capital leases has been included in the depreciation expense. During the year ended December 31, 2015, the Organization received \$255,800 in donated fixed assets.

Net Assets - The Organization has unrestricted net assets. Designated unrestricted net assets consist of the net investment in fixed assets. The Organization does not have permanently or temporarily restricted net assets.

Donations and Grant Income - The Organization receives donations and grants from corporations, foundations, charitable organizations, and individuals. Donations and grants are presented in accordance with presented Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, Not-For-Profit Entities, ASC 958,605 Not-For-Profit Entities-Revenue Recognition.

Donated Goods - Noncash donations for supplies including household items, prizes, food, and beverages have been recorded as in-kind donations and are recorded at fair market value at the date of donation. During the year ended December 31, 2015, CWW received \$68,145.

Donated Services - For the year ended December 31, 2015, \$347,364 has been reflected in the financial statements for donated services from various professionals such as property maintenance, pest control, radio ads, psychiatry, and design services. The Organization would have had to pay for these services requiring specific expertise and have been recorded at the fair market value.

Volunteer Hours - CWW receives volunteer hours for both program and fund-raising services but were not recognized as contributions in the financial statements as they did not meet the criteria to be recognized as contributions.

Income Tax - The Organization is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701 (d) of the Revenue and Taxation Code of the State of California. During the year ended December 31, 2015, it did not have any unrelated business income. CWW believes that it has appropriate support for income tax provisions taken. Therefore, management has not identified any uncertain income tax positions. CWW continues to remain subject to examination by U.S. authorities for the years 2012-2014, and by state authorities for the years 2011-2014.

Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs benefitted.

Advertising - The cost of nondirect-response advertising is charged to expense as incurred. Advertising expense for the years ended December 31, 2015, was \$14,500.

Concentration - 22% of CWW's funding comes from state and county funds for the year ended December 31, 2015.

COURAGE WORLDWIDE, INC.

**Notes to Financial Statements
December 31, 2015**

NOTE 2- PROPERTY AND EQUIPMENT

A summary of Organization assets as of December 31, 2015, are as follows:

Land	\$	491,000
Buildings and improvements		803,250
Furnishings and equipment		71,873
Transportation		118,673
Animals		35,250
Construction in progress		<u>397,965</u>
		1,918,011
Less: accumulated depreciation		<u>(191,947)</u>
Total	\$	<u><u>1,726,064</u></u>

Depreciation expense for the year ended December 31, 2015, was \$56,608.

NOTE 3 – LEASES

The Organization leases certain property under non-cancelable (except under certain circumstances) operating lease arrangements. Rental expense for the year ended December 31, 2015, was \$27,205. Future minimum lease payments as of December 31, 2015, are as follows:

Year	Amount
2016	\$ 34,549
2017	10,124
2018	2,324
2019	2,324
2020	1,550
Total	<u>\$ 50,871</u>

COURAGE WORLDWIDE, INC.

**Notes to Financial Statements
December 31, 2015**

NOTE 4 - LONG-TERM DEBT

The Organization's long-term debt as of December 31, 2015, includes the following:

Line of credit with a bank –		
The interest rate on the equity line is variable based on the Wall Street Journal Prime Rate.		\$ 69,992
The initial interest rate of the equity line was 3.25%.		
The agreement ends on June 18, 2016, the date on which the line must be repaid in full.		
Note payable to a bank –		
Secured by a deed of trust on real property and assignment of rents from the real property.		
Monthly principal and interest payments are \$3,193 with interest at 5.5%. The note matures April 2017.		454,536
Contracts payable:		
Contract payable to a financial institution –		
For the purchase of a vehicle.		
Monthly principal and interest payments are \$656 with interest at 2.9%. The contract matures June 2020.	33,182	
Contract payable to a financial institution –		
For the purchase of a vehicle.		
Monthly principal and interest payments are \$597 with interest at 0.9%. The contract matures June 2020.	31,582	
Contract payable to a financial institution –		
For the purchase of a vehicle.		
Monthly principal and interest payments are \$597 with interest at 0.9%. The contract matures June 2020.	31,579	96,343
Total		<u>\$620,871</u>

The maturities are as follows:

	Line of Credit	Note Payable	Contracts Payable	Total
2016	\$ 69,992	\$ 13,665	\$ 20,819	\$ 104,476
2017	-	440,871	21,151	462,022
2018	-	-	21,489	21,489
2019	-	-	21,834	21,834
2020	-	-	11,050	11,050
Total principal	69,992	454,536	96,343	620,871
Interest	1,137	33,025	3,562	37,724
Total	\$ 71,129	\$ 487,561	\$ 99,905	\$ 658,595

COURAGE WORLDWIDE, INC.

**Notes to Financial Statements
December 31, 2015**

NOTE 5- SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 15, 2016, the date which the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2015, that would have a material impact on the results of operations or its financial position.