

KIDS AROUND THE WORLD, INC.  
INDEPENDENT AUDITOR'S REPORT  
and  
FINANCIAL STATEMENTS  
December 31, 2007 and 2006

KIDS AROUND THE WORLD, INC.

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KIDS AROUND THE WORLD, INC  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$164,100	\$103,654
Accounts receivable	39,304	52,260
Inventory	300,341	212,620
Prepaid expenses	<u>21,827</u>	<u>18,568</u>
Total Current Assets	525,572	387,102
Investments	51,645	--
Property and equipment, net	<u>52,063</u>	<u>57,236</u>
Total Assets	<u>\$629,280</u>	<u>\$444,338</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ <u>74,079</u>	\$ <u>33,293</u>
Total Current Liabilities	<u>74,079</u>	<u>33,293</u>
NET ASSETS		
Unrestricted		
Board designated	135,159	80,915
Undesignated	<u>116,830</u>	<u>63,562</u>
Total Unrestricted	<u>251,989</u>	<u>144,477</u>
Temporarily restricted	<u>303,212</u>	<u>266,568</u>
Total Net Assets	<u>555,201</u>	<u>411,045</u>
Total Liabilities and Net Assets	<u>\$629,280</u>	<u>\$444,338</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF ACTIVITIES  
Year ended December 31, 2007

REVENUES	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Contributions	\$1,948,962	\$203,212	\$2,152,174
Net assets released from restriction	166,568	( 166,568)	--
Interest Income	<u>2,544</u>	<u>--</u>	<u>2,544</u>
Total Revenues	<u>2,118,074</u>	<u>36,644</u>	<u>2,154,718</u>
EXPENSES			
Program services	1,574,039	--	1,574,039
Supporting services			
General and administrative	205,589	--	205,589
Fundraising	<u>230,934</u>	<u>--</u>	<u>230,934</u>
Total Expenses	<u>2,010,562</u>	<u>--</u>	<u>2,010,562</u>
Change in net assets	107,512	36,644	144,156
Total net assets, beginning of the year	<u>144,477</u>	<u>266,568</u>	<u>411,045</u>
Total net assets, end of the year	<u>\$ 251,989</u>	<u>\$303,212</u>	<u>\$ 555,201</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF ACTIVITIES  
Year ended December 31, 2006

REVENUES	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Contributions	\$1,730,504	\$266,568	\$1,997,072
Net assets released from restriction	29,901	( 29,901)	--
Interest Income	<u>727</u>	<u>--</u>	<u>727</u>
Total Revenues	<u>1,761,132</u>	<u>236,667</u>	<u>1,997,799</u>
EXPENSES			
Program services	1,378,196	--	1,378,196
Supporting services			
General and administrative	222,386	--	222,386
Fundraising	<u>198,380</u>	<u>--</u>	<u>198,380</u>
Total Expenses	<u>1,798,962</u>	<u>--</u>	<u>1,798,962</u>
Change in net assets	( 37,830)	236,667	198,837
Total net assets, beginning of the year	<u>182,307</u>	<u>29,901</u>	<u>212,208</u>
Total net assets, end of the year	<u>\$ 144,477</u>	<u>\$266,568</u>	<u>\$ 411,045</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2007

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Mission</u>	<u>General and Administrative</u>	<u>Fund- raising</u>	<u>Total</u>
Mission Projects	\$ 995,715	\$ --	\$ --	\$ 995,715
Officer's compensation	15,060	15,060	7,530	37,650
Other salaries and wages	191,918	48,574	66,765	307,257
Other employee benefits	30,508	20,078	15,638	66,224
Payroll taxes	13,337	4,002	4,890	22,229
Professional fees	--	24,350	--	24,350
Supplies	14,614	29,670	--	44,284
Telephone	2,214	3,689	1,476	7,379
Rent	17,971	29,952	11,981	59,904
Utilities	2,167	3,612	1,444	7,223
Printing and postage	33,378	--	--	33,378
Travel	225,480	3,451	1,151	230,082
Depreciation	3,086	5,144	2,057	10,287
Insurance	8,527	8,876	--	17,403
Fundraising	--	--	112,857	112,857
Miscellaneous	<u>20,064</u>	<u>9,131</u>	<u>5,145</u>	<u>34,340</u>
Total Expenses	<u>\$1,574,039</u>	<u>\$205,589</u>	<u>\$230,934</u>	<u>\$2,010,562</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2006

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Mission</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
Mission Projects	\$ 915,090	\$ --	\$ --	\$ 915,090
Officer's compensation	15,060	18,825	3,765	37,650
Other salaries and wages	100,613	48,294	52,319	201,226
Other employee benefits	43,377	13,347	10,010	66,734
Payroll taxes	6,701	3,216	3,484	13,401
Accounting fees	--	22,111	--	22,111
Supplies	28,043	57,302	--	85,345
Telephone	2,643	4,405	1,762	8,810
Rent	15,479	25,799	10,319	51,597
Utilities	1,947	3,245	1,298	6,490
Printing and postage	19,708	--	--	19,708
Travel	193,439	2,361	472	196,272
Depreciation	2,620	4,368	1,747	8,735
Insurance	7,587	7,771	--	15,358
Fundraising	--	--	106,434	106,434
Loss on disposal of fixed assets	--	361	--	361
Miscellaneous	<u>25,889</u>	<u>10,981</u>	<u>6,770</u>	<u>43,640</u>
Total Expenses	<u>\$1,378,196</u>	<u>\$222,386</u>	<u>\$198,380</u>	<u>\$1,798,962</u>

KIDS AROUND THE WORLD, INC.

STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2007 and 2006

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2007</u>	<u>2006</u>
Change in net assets	\$144,156	\$198,837
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	10,287	8,735
Contributions of non-cash assets	( 13,971)	( 86,991)
(Increase) decrease in operating assets and liabilities		
Prepaid expenses	( 3,259)	( 10,590)
Accounts receivable	12,956	( 49,101)
Inventory	( 73,750)	( 75,447)
Accounts payable	<u>40,786</u>	<u>( 22,563)</u>
Net cash provided (used) by operating activities	<u>117,205</u>	<u>( 37,120)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	( 51,645)	--
Payments for property and equipment	<u>( 5,114)</u>	<u>( 14,679)</u>
Net cash used by investing activities	<u>( 56,759)</u>	<u>( 14,679)</u>
Net increase (decrease) in cash and cash equivalents	60,446	( 51,799)
Cash and cash equivalents, beginning of the year	<u>103,654</u>	<u>155,453</u>
Cash and cash equivalents, end of the year	<u>\$164,100</u>	<u>\$103,654</u>

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kids Around the World, Inc. is a nonprofit corporation organized in February 1995, under the laws of the State of Illinois for the purpose of building playgrounds for, and giving other humanitarian aid to children around the world. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) and 170(b)(1)(A)(vi) of the Internal Revenue Code and qualifies donors for the charitable contributions deduction.

Basis of Accounting

The Organization maintains its records and prepares its financial statements on the accrual basis of accounting.

Basis of Presentation

The Organization classifies net assets into three categories—unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are those funds presently available for use by the Organization at the discretion of the Board of Directors. If the Board specifies a purpose where none has been stated by the original donor, such funds are classified as designated unrestricted net assets. Temporarily restricted net assets are those funds which have donor-imposed restrictions as to time, purpose or both. Permanently restricted net assets are those funds subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Inventory

Inventory consists of playgrounds and related equipment and supplies purchased for future projects. Inventory is carried at the lower of cost or market.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Promises to Give

Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and Equipment

Property and equipment is recorded at cost, or if donated, at estimated fair market value at the date of the donation. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is stated at cost for purchased assets. The Organization follows the practice of capitalizing property and equipment with a cost, or fair market value if donated, of \$500 or more. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Leasehold Improvements	15-40 years
Equipment	3-7 years

Contributed Services and Non-cash Gifts

The Organization recognizes the value of donated services in the financial statements when the services create or enhance a non-financial asset or are considered specialized skills provided by entities or persons possessing those skills that would be purchased if they were not donated.

Many individuals, including administrative personnel, have made significant contributions of their time and services to advance the Organization's program and objectives. The value of these services has not been recorded. They do not meet the definition for recognition under generally accepted accounting principles.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributed Services and Non-cash Gifts, continued

In-kind contributions recorded by the Organization at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Rent	\$ 15,600	\$ 15,600
Payroll services	2,193	1,361
Fundraising	17,169	11,021
Playgrounds	295,053	316,084
Storage	6,000	7,200
Professional services	<u>6,039</u>	<u>13,530</u>
	<u>\$342,054</u>	<u>\$364,796</u>

Of the total in-kind contributions of playgrounds in 2007 and 2006, \$100,962 and \$86,991, respectively, was charged to inventory and \$194,091 and \$229,093, respectively, was charged to mission projects.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function have been allocated between program services and supporting services based on the Organization's analysis of personnel time and management's actual and estimated allocation of expense. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising Costs

The Organization expenses advertising costs as incurred. Amounts expensed in 2007 and 2006 were \$6,940 and \$6,770, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Related Party Transactions

Members of the Board of Directors transact business with the Organization in their ordinary course of business. Therefore, amounts due from and/or to related parties exist throughout the year.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE II PROPERTY AND EQUIPMENT

At December 31 property and equipment consists of the following:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$22,640	\$20,850
Equipment	<u>63,433</u>	<u>66,604</u>
	86,073	87,454
Accumulated depreciation	( <u>34,010</u> )	( <u>30,218</u> )
	<u>\$52,063</u>	<u>\$57,236</u>

NOTE III CAPITAL LEASE

During 2007 the Organization entered into a capital lease to acquire a computer. The lease requires monthly payments of \$53 and matures July 28, 2010. Minimum future payments under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 397	\$234	\$ 631
2009	494	137	631
2010	<u>342</u>	<u>26</u>	<u>368</u>
	<u>\$1,233</u>	<u>\$397</u>	<u>\$1,630</u>

NOTE IV CONCENTRATION OF CREDIT RISK

The Organization maintains cash at one financial institution. Accounts at that institution are insured by the Federal Deposit Insurance Corporation for up to \$100,000. As of December 31, 2007 the Organization's uninsured cash balance totaled \$69,458.

NOTE V LEASE COMMITMENTS

As of December 31, 2007 the Organization has two separate leases for its facilities. The Organization entered into one lease on July 1, 2004. The initial term of the lease is for twenty months, with an option to renew for one extended term of five years. The Organization has executed this option. Base rent for the initial term is \$1,237 per month. Base rent for the renewal lease term is \$1,519 per month. The lease provides that the lessee pay its pro rata share of property taxes, insurance and common area expenses. The lessee is required to pay for repairs and utilities.

The Organization entered into a lease that commenced on August 1, 2007 and expires on August 1, 2010. The landlord agreed to donate to the Organization the use of the leased premises for the lease term. The rent was valued at \$1,300 per month. The lease provides that the lessee pay its pro rata share of property taxes, insurance and common area expenses. The lessee is required to pay for repairs and utilities.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE V LEASE COMMITMENTS, Continued

On August 9, 2007, the Organization entered into a lease for a storage facility. The lease is on a month-to-month basis for \$1,500 per month.

The Organization entered into an operating lease for a copier on May 31, 2007. The lease is non-cancelable for the first three years. After the initial term it converts to a year-to-year lease which is cancelable with written notification. Base rent includes an annual fee and a per page minimum. The monthly rent amount is calculated to be \$97 per month.

Total minimum lease commitments as of December 31, 2007 are \$60,515, due as follows:

<u>Year</u>	<u>Building</u>	<u>Copier</u>	<u>Total</u>
2008	\$18,225	\$1,160	\$19,385
2009	18,225	1,160	19,385
2010	18,225	483	18,708
2011	<u>3,038</u>	<u>--</u>	<u>3,038</u>
	<u>\$57,713</u>	<u>\$2,803</u>	<u>\$60,516</u>

Total rent expense for the years ended December 31, 2007 and 2006 was \$38,304 and \$51,597, respectively.

NOTE VI BOARD DESIGNATED NET ASSETS

At December 31 board designated net assets consists of:

	<u>2007</u>	<u>2006</u>
Endowment	\$ 51,646	\$25,000
Future Repairs	25,000	25,000
Future Travel	20,612	25,949
Future Projects	33,720	--
Other	<u>4,181</u>	<u>4,966</u>
	<u>\$135,159</u>	<u>\$80,915</u>

NOTE VII RESTRICTIONS ON NET ASSETS

At December 31 temporarily restricted net assets consist of:

	<u>2007</u>	<u>2006</u>
Future playground projects	<u>\$303,212</u>	<u>\$266,568</u>

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE VIII RELATED PARTY TRANSACTIONS

During the years ending December 31, the Organization contracted for services with companies that were owned by members of the Board of Directors. The amounts are as follows:

	<u>2007</u>	<u>2006</u>
Johnson Group Companies	\$ --	\$31,511
Camelot World Travel	--	264
Lundstrom Insurance	15,210	14,428
Stockholm Inn LP	<u>23,389</u>	<u>25,234</u>
	<u>\$38,599</u>	<u>\$71,437</u>