

KIDS AROUND THE WORLD, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

For the years ended December 31, 2016 and 2015

KIDS AROUND THE WORLD, INC.

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Quimby & Co., P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kids Around The World, Inc.
Rockford, Illinois

We have audited the accompanying financial statements of Kids Around The World, Inc. (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2016 and 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 Kids Around The World, Inc. as of December 31, 2016 and 2015, 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.

QUIMBY & CO., P.C.



Rockton, Illinois
February 3, 2017

KIDS AROUND THE WORLD, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 390,421	\$ 413,978
Accounts receivable	67,190	42,632
Inventories	1,022,639	913,312
Prepaid expenses	20,461	15,673
Bequest receivable	<u> --</u>	<u>32,385</u>
Total current assets	1,500,711	1,417,980
Property and equipment, net	<u>64,784</u>	<u>41,685</u>
Total assets	<u>\$1,565,495</u>	<u>\$1,459,665</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 78,812	\$ 30,111
Accrued payroll	9,313	9,313
Lease payable	<u>1,260</u>	<u> --</u>
Total current liabilities	<u>89,385</u>	<u>39,424</u>
Lease payable	<u>5,766</u>	<u> --</u>
Total liabilities	<u>95,151</u>	<u>39,424</u>
NET ASSETS		
Unrestricted:		
Board designated:		
Endowment	52,000	52,000
Future playgrounds	<u>31,517</u>	<u> --</u>
Total board designated	83,517	52,000
Undesignated	<u>1,386,827</u>	<u>1,304,977</u>
Total unrestricted	<u>1,470,344</u>	<u>1,356,977</u>
Temporarily restricted	<u> --</u>	<u>63,264</u>
Total net assets	<u>1,470,344</u>	<u>1,420,241</u>
Total liabilities and net assets	<u>\$1,565,495</u>	<u>\$1,459,665</u>

KIDS AROUND THE WORLD, INC.

STATEMENTS OF ACTIVITIES
for the year ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support:		
Contributions	\$1,267,092	\$1,413,550
In-kind contributions	1,029,113	740,303
Program revenue and support:		
Playgrounds	1,190,589	990,769
Food	857,823	909,402
KIDStory	115,759	62,053
Interest income	84	58
Net assets released from restriction	63,264	--
Loss on disposal of assets	(14,424)	(2,742)
Total revenue and support	<u>4,509,300</u>	<u>4,113,393</u>
Expenses:		
Program services	3,967,409	3,460,351
Supporting services:		
General and administrative	211,362	189,011
Fundraising	<u>217,162</u>	<u>246,700</u>
Total expenses	<u>4,395,933</u>	<u>3,896,062</u>
Change in unrestricted net assets	<u>113,367</u>	<u>217,331</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions restricted as to purpose	--	63,264
Released from restriction	(63,264)	--
Change in temporarily restricted net assets	(63,264)	<u>63,264</u>
Change in net assets	50,103	280,595
Net assets, beginning of the year	<u>1,420,241</u>	<u>1,139,646</u>
Net assets, end of the year	<u>\$1,470,344</u>	<u>\$1,420,241</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2016

	Program <u>Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>General and Administrative</u>	<u>Fundraising</u>	
Mission projects	\$2,322,237	\$ --	\$ --	\$2,322,237
Officer's compensation	118,348	28,497	14,738	161,583
Other salaries and wages	682,577	39,741	63,252	785,570
Other employee benefits	264,567	9,306	31,539	305,412
Payroll taxes	49,203	4,188	4,769	58,160
Professional fees	--	43,366	--	43,366
Supplies	9,917	20,133	--	30,050
Telephone	16,573	4,735	2,367	23,675
Rent	37,026	5,088	3,816	45,930
Utilities	7,681	2,363	1,773	11,817
Printing and postage	12,644	--	1,405	14,049
Travel	396,738	4,048	4,049	404,835
Depreciation	5,207	5,207	2,604	13,018
Insurance	31,572	31,572	--	63,144
Fundraising	--	--	86,850	86,850
Miscellaneous	<u>13,119</u>	<u>13,118</u>	<u>--</u>	<u>26,237</u>
Total expenses	<u>\$3,967,409</u>	<u>\$211,362</u>	<u>\$217,162</u>	<u>\$4,395,933</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2015

	Program <u>Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>General and Administrative</u>	<u>Fundraising</u>	
Mission projects	\$1,851,766	\$ --	\$ --	\$1,851,766
Officer's compensation	115,385	27,643	13,766	156,794
Other salaries and wages	623,903	20,659	88,506	733,068
Other employee benefits	218,146	3,979	21,122	243,247
Payroll taxes	44,770	2,925	6,193	53,888
Professional fees	--	41,594	--	41,594
Supplies	8,931	18,134	--	27,065
Telephone	16,858	4,817	2,408	24,083
Rent	44,280	5,967	4,475	54,722
Utilities	5,584	1,718	1,289	8,591
Printing and postage	23,901	--	2,655	26,556
Travel	449,841	4,590	4,590	459,021
Depreciation	5,013	5,013	2,507	12,533
Insurance	33,103	33,102	--	66,205
Fundraising	--	--	99,189	99,189
Miscellaneous	<u>18,870</u>	<u>18,870</u>	<u>--</u>	<u>37,740</u>
Total expenses	<u>\$3,460,351</u>	<u>\$189,011</u>	<u>\$246,700</u>	<u>\$3,896,062</u>

KIDS AROUND THE WORLD, INC.

STATEMENTS OF CASH FLOWS
for the years ended December 31, 2016 and 2015

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2016</u>	<u>2015</u>
Change in net assets	\$ 50,103	\$280,595
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	13,018	12,533
Loss on disposition of assets	14,424	2,832
Donated property and equipment	(16,394)	--
Change in operating assets and liabilities:		
Accounts receivable	(24,558)	9,043
Inventories	(109,327)	(105,714)
Prepaid expenses	(4,788)	16,584
Bequest receivable	32,385	(32,385)
Accounts payable	48,701	10,405
Accrued payroll	--	9,313
Lease payable	<u>7,420</u>	<u>--</u>
Net cash from operating activities	<u>10,984</u>	<u>203,206</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on capital lease	(394)	--
Purchase of property and equipment	(34,147)	(14,298)
Net cash from investing activities	(34,541)	(14,298)
Net change in cash and cash equivalents	(23,557)	188,908
Cash and cash equivalents, beginning of the year	<u>413,978</u>	<u>225,070</u>
Cash and cash equivalents, end of the year	<u>\$390,421</u>	<u>\$413,978</u>

Interest paid for the years ending December 31, 2016 and 2015 was \$227 and \$0, respectively.

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. (the Organization) 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 and providing training and resources for those who work with children. 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 statements 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.

Inventories

Inventories consist of new and used playgrounds and related equipment, supplies purchased for future projects, KIDStory sets and materials, and food for children's programs. Inventories are carried at the lower of cost or market.

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.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

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	7-40 years
Equipment	3-10 years
Vehicle	5 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.

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

	<u>2016</u>	<u>2015</u>
Rent	\$ 10,600	\$ 15,600
Payroll services	2,807	5,462
Fundraising	7,317	12,850
Playgrounds	846,375	691,437
Storage	9,000	4,500
Professional services	650	1,800
Clothing	64,515	--
Other	<u>87,849</u>	<u>8,654</u>
	<u>\$1,029,113</u>	<u>\$740,303</u>

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.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Functional Allocation of Expenses, Continued

General and administrative 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. Advertising costs were \$0 and \$0 in 2016 and 2015, 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.

NOTE II INVENTORIES

At December 31 inventories consist of the following:

	<u>2016</u>	<u>2015</u>
Playgrounds	\$ 924,900	\$823,500
KIDStory sets and materials	18,497	33,802
Food	<u>79,242</u>	<u>56,010</u>
	<u>\$1,022,639</u>	<u>\$913,312</u>

NOTE III PROPERTY AND EQUIPMENT

At December 31 property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Vehicles	\$ 40,342	\$ 33,593
Leasehold improvements	9,200	24,715
Equipment	<u>88,217</u>	<u>95,244</u>
	137,759	153,552
Accumulated depreciation	(<u>72,975</u>)	(<u>111,867</u>)
	<u>\$ 64,784</u>	<u>\$ 41,685</u>

NOTE IV LEASE COMMITMENTS

As of December 31, 2016 the Organization has three separate leases for facilities, two of which are non-cancelable.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE IV LEASE COMMITMENTS, Continued

The Organization entered into a non-cancelable sublease on March 1, 2011. The term of the lease is for five years with base rent for the term of \$1,687 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. This lease was terminated on February 28, 2016.

The Organization entered into a non-cancelable lease for a storage facility that commenced on December 13, 2012 and expired December 30, 2015. Rent is \$1,000 per month. The lessee is required to pay for property taxes and insurance.

The Organization entered into a non-cancelable lease for offices that commenced on April 1, 2012 and expired March 31, 2014. On April 1, 2014 the lease was extended to March 31, 2016 and later extended to March 31, 2018. The monthly rent payment is \$3,093.

The Organization entered into a lease that commenced on August 1, 2007 and expired on August 1, 2010. At that date it became a month-to-month lease. The landlord agreed to donate to the Organization the use of the leased premises for the lease term. The annual rent is valued at \$15,600. 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. This lease was terminated on February 28, 2016.

On March 1, 2011 the Organization entered into a lease for a storage facility. The lease is on a month-to-month basis for \$1,200 per month. The lessee is required to pay for utilities and any taxes or assessments. This lease was terminated as of February 28, 2015.

The Organization entered into a lease that commenced on October 1, 2013 and expired on September 30, 2016. The rent is \$1,000 per month. The lease provides that the lessee pay for utilities. The lease was non-cancelable from October 1, 2013 through August 31, 2014. Thereafter, the lease became cancelable with a 30 day notice. This lease was terminated on April 30, 2016.

The Organization entered into a cancellable lease for storage area for \$1 per year at July 1, 2015. The estimated rental value per month is \$750.

The Organization entered into a non-cancelable lease for office and storage space that commenced on March 1, 2016 and expires on February 28, 2017. The rent is \$3,667 per month.

Total minimum lease commitments under non-cancelable leases excluding common area maintenance as of December 31, 2016 are \$53,729.

Total rent and common area maintenance charged to expense for the years ended December 31, 2016 and 2015 was \$101,972 and \$118,026, respectively.

NOTE V BOARD DESIGNATED NET ASSETS

Board designated net assets are \$83,517 and \$52,000 for the years ended December 31, 2016 and 2015, respectively.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE VI TEMPORARILY RESTRICTED NET ASSETS

In 2015 the Organization received a grant totaling \$63,264. The grant is restricted for funding of a collaborative effort with two other organizations to provide vocational skills training to young people in Rockford. The grant was expended by December 31, 2016.

NOTE VII CAPITAL LEASE

In 2016 the Organization leased a copier. The terms of the lease provide for monthly payments of \$227 through August 2021 with a purchase option of fair market value at termination. The monthly payment covers basic maintenance of the copier. The Organization has recorded this as a capital lease. Future minimum payments under the lease are:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$1,260	\$ 602	\$1,862
2018	1,383	479	1,862
2019	1,518	344	1,862
2020	1,664	198	1,862
2021	<u>1,201</u>	<u>42</u>	<u>1,243</u>
	<u>\$7,026</u>	<u>\$1,665</u>	<u>\$8,691</u>

NOTE VIII PROFIT SHARING PLAN

Effective February 1, 2013, the Organization established a 401(k) profit sharing plan that covers substantially all full time employees who have attained age 21 and three consecutive months of service. The plan provides for matching contributions by the Organization equal to a discretionary percentage, to be determined by the Organization, of the employees' elective deferrals. The employees' elective deferrals are 100% vested at all times. The Organization's matching contributions vest over 6 years, except they are 100% vested if the employee is over the Normal Retirement Age or dies or becomes disabled. Matching contributions charged to expense were \$12,081 and \$9,437 for the years ended December 31, 2016 and 2015, respectively. Plan administration fees charged to expense were \$2,740 and \$3,390 for the year ended December 31, 2016 and 2015, respectively.

NOTE IX INCOME TAXES

The Organization follows the authoritative guidance issued by the Financial Accounting Standards Board clarifying the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribing a recognition threshold of "more-likely-than-not" to be sustained upon examination. The Organization does not believe the financial statements include (or reflect) any uncertain tax positions. The Organization conducts business solely in the United States and as a result, files informational returns with the United States, Illinois and California. In the normal course of business the Organization is subject to examination by taxing authorities. The Organization's informational returns for fiscal years subsequent to 2012 are open, by statute, for review by authorities. At December 31, 2016 there are no ongoing audits or unresolved disputes with the various tax authorities the Organization currently files or has filed with.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE X 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 paid for these services are as follows:

	<u>2016</u>	<u>2015</u>
Lundstrom Insurance	\$14,734	\$12,646
Stockholm Inn	<u>5,579</u>	<u>31,276</u>
	<u>\$20,313</u>	<u>\$43,922</u>

NOTE XI SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 3, 2017, the date these financial statements were available for issuance, and determined there were no significant non-recognized events through that date.

NOTE XII FAIR VALUE MEASUREMENTS

The Accounting Standards Codification for fair value measurements establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. Under this Topic, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The statement provides a hierarchy for ranking the quality and reliability of the information used to determine fair values, with level 1 being given the highest priority and level 3 the lowest priority. The three levels of the fair value hierarchy are described as follows:

- Level 1 – Quoted market prices in active markets for identical assets and liabilities.
- Level 2 – Observable market based inputs or observable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data.

At December 31, 2016 and 2015 the only financial instruments measured at fair value on a recurring basis were cash and cash equivalents of \$390,421 and \$413,978, respectively, based on Level 1 inputs.

NOTE XIII ENDOWMENT FUND

The Organization's endowment consists of Board designated funds established to provide an additional source of support for the Organization's activities. As required by generally accepted accounting principles, net assets associated with endowments are classified and reported based on the existence or absence of original donor-imposed restrictions.

The Organization's management has interpreted IL UPMIFA as requiring the preservation of the fair value of original gifts as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to permanent endowments, (b) the original value of subsequent gifts to permanent endowments and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE XIII ENDOWMENT FUND, Continued

accumulation is added to the fund. Remaining portions of donor-restricted endowment funds not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by IL UPMIFA. Board designated endowment funds are classified as unrestricted, Board designated net assets.

Investment Return Objectives, Risk Parameters and Strategies. It is management's understanding the investment and handling of the endowment is subject to and is guided by the laws of Illinois, including the following Acts of the State of Illinois: *The Trusts and Trustees Act (760 ILCS 5/1 et seq.)*, *The Prudent Investor Rule (760 ILCS 5/5)*, *The Uniform Prudent Management of Institutional Funds Act (760 ILCS 50/1 et seq.)* and *The Charitable Trust Act (760 ILCS 55/1 et seq.)*.

Spending Policy. Amounts appropriated for spending are determined by investment earnings and annual distributions to the Organization.

Unrestricted Board designated endowment activity is as follows:

	<u>2016</u>	<u>2015</u>
Board designated endowment:		
Beginning of year	\$52,000	\$52,000
Net investment gain	---	---
End of year	<u>\$52,000</u>	<u>\$52,000</u>