

KIDS AROUND THE WORLD, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

For the years ended December 31, 2017 and 2016

KIDS AROUND THE WORLD, INC.

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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, 2017 and 2016, 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, 2017 and 2016, 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.

SIEPERT & CO., LLP.

Beloit, Wisconsin
February 2, 2018

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KIDS AROUND THE WORLD, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 268,219	\$ 390,421
Investments	126,806	--
Accounts receivable	19,693	67,190
Inventories	1,060,486	1,022,639
Prepaid expenses	<u>15,810</u>	<u>20,461</u>
Total current assets	1,491,014	1,500,711
Property and equipment, net	<u>51,566</u>	<u>64,784</u>
Total assets	<u>\$1,542,580</u>	<u>\$1,565,495</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 40,639	\$ 78,812
Accrued payroll	9,313	9,313
Lease payable	<u>1,383</u>	<u>1,260</u>
Total current liabilities	51,335	89,385
Lease payable	<u>4,383</u>	<u>5,766</u>
Total liabilities	<u>55,718</u>	<u>95,151</u>
NET ASSETS		
Unrestricted:		
Board designated:		
Endowment	52,000	52,000
Future playgrounds	<u>--</u>	<u>31,517</u>
Total board designated	52,000	83,517
Undesignated	<u>1,390,711</u>	<u>1,386,827</u>
Total unrestricted	<u>1,442,711</u>	<u>1,470,344</u>
Temporarily restricted	<u>44,151</u>	<u>--</u>
Total net assets	<u>1,486,862</u>	<u>1,470,344</u>
Total liabilities and net assets	<u>\$1,542,580</u>	<u>\$1,565,495</u>

See accompanying notes to financial statements.

KIDS AROUND THE WORLD, INC.
 STATEMENTS OF ACTIVITIES
 for the year ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support:		
Contributions	\$1,214,781	\$1,267,092
In-kind contributions	1,049,368	1,029,113
Program revenue and support:		
Playgrounds	1,271,247	1,190,589
Food	1,213,427	857,823
KIDStory	100,163	115,759
Interest income	1,886	84
Net assets released from restriction	--	63,264
Loss on disposal of assets	<u>--</u>	<u>(14,424)</u>
Total revenue and support	<u>4,850,872</u>	<u>4,509,300</u>
Expenses:		
Program services	4,429,082	3,967,409
Supporting services:		
General and administrative	248,088	211,362
Fundraising	<u>201,335</u>	<u>217,162</u>
Total expenses	<u>4,878,505</u>	<u>4,395,933</u>
Change in unrestricted net assets	<u>(27,633)</u>	<u>113,367</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	44,151	--
Released from restriction	<u>--</u>	<u>(63,264)</u>
Change in temporarily restricted net assets	<u>44,151</u>	<u>(63,264)</u>
Change in net assets	16,518	50,103
Net assets, beginning of the year	<u>1,470,344</u>	<u>1,420,241</u>
Net assets, end of the year	<u>\$1,486,862</u>	<u>\$1,470,344</u>

KIDS AROUND THE WORLD, INC.

STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2017

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Mission projects	\$2,638,338	\$ --	\$ --	\$2,638,338
Officer's compensation	120,712	29,588	14,920	165,220
Other salaries and wages	765,326	53,819	70,472	889,617
Other employee benefits	271,057	14,601	31,219	316,877
Payroll taxes	53,869	5,066	5,194	64,129
Professional fees	--	47,637	--	47,637
Supplies	8,210	16,669	--	24,879
Telephone	19,662	5,618	2,809	28,089
Rent	40,592	3,775	2,831	47,198
Utilities	10,976	3,377	2,533	16,886
Printing and postage	9,879	--	1,098	10,977
Travel	430,686	4,395	4,394	439,475
Depreciation	8,298	8,298	4,148	20,744
Insurance	34,396	34,395	--	68,791
Fundraising	--	--	61,717	61,717
Bad debt expense	--	3,770	--	3,770
Miscellaneous	<u>17,081</u>	<u>17,080</u>	<u>--</u>	<u>34,161</u>
Total expenses	<u>\$4,429,082</u>	<u>\$248,088</u>	<u>\$201,335</u>	<u>\$4,878,505</u>

KIDS AROUND THE WORLD, INC.

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

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
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.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 16,518	\$ 50,103
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,744	13,018
Loss on disposition of assets	--	14,424
Donated property and equipment	--	(16,394)
Change in operating assets and liabilities:		
Accounts receivable	47,497	(24,558)
Inventories	(37,847)	(109,327)
Prepaid expenses	4,651	(4,788)
Bequest receivable	--	32,385
Accounts payable	(38,173)	48,701
Accrued payroll	--	--
Lease payable	--	7,420
Net cash from operating activities	<u>13,390</u>	<u>10,984</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(126,806)	--
Payments on capital lease	(1,260)	(394)
Purchase of property and equipment	(7,526)	(34,147)
Net cash from investing activities	<u>(135,592)</u>	<u>(34,541)</u>
Net change in cash and cash equivalents	(122,202)	(23,557)
Cash and cash equivalents, beginning of the year	390,421	413,978
Cash and cash equivalents, end of the year	<u>\$268,219</u>	<u>\$390,421</u>

Interest paid for the years ending December 31, 2017 and 2016 was \$602 and \$227, 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.

Investments

The Organization reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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.

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 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. The Organization follows the practice of capitalizing property and equipment with a cost, or fair 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>2017</u>	<u>2016</u>
Rent	\$ --	\$ 10,600
Payroll services	5,313	2,807
Fundraising	--	7,317
Playgrounds	802,795	846,375
Storage	26,000	9,000
Professional services	--	650
Clothing	173,260	64,515
Other	<u>42,000</u>	<u>87,849</u>
	<u>\$1,049,368</u>	<u>\$1,029,113</u>

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 2017 and 2016, 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 INVESTMENTS

At December 31, 2017, investments consist of the following:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Cash and equivalents	\$108,329	\$108,329	\$ --
Bond funds	<u>18,710</u>	<u>18,477</u>	(233)
	<u>\$127,039</u>	<u>\$126,806</u>	(\$233)

Investments in securities, 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 investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could be material in amount.

NOTE III INVENTORIES

At December 31 inventories consist of the following:

	<u>2017</u>	<u>2016</u>
Playgrounds	\$ 957,150	\$ 924,900
KIDStory sets and materials	17,158	18,497
Food	<u>86,178</u>	<u>79,242</u>
	<u>\$1,060,486</u>	<u>\$1,022,639</u>

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE IV PROPERTY AND EQUIPMENT

At December 31 property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Vehicles	\$ 40,342	\$ 40,342
Leasehold improvements	9,200	9,200
Equipment	<u>95,743</u>	<u>88,217</u>
	145,285	137,759
Accumulated depreciation	(<u>93,719</u>)	(<u>72,975</u>)
	<u>\$ 51,566</u>	<u>\$ 64,784</u>

NOTE V LEASE COMMITMENTS

As of December 31, 2017 the Organization has two separate leases for facilities, which are non-cancelable.

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 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.

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 non-cancelable lease for office and storage space that commenced on March 1, 2016 and expired on February 28, 2017. On March 1, 2017, the lease was extended to February 28, 2018. The lease provides that the lessee pay its pro rata share of property taxes. The rent is \$4,125 per month.

Total minimum lease commitments under non-cancelable leases excluding common area maintenance as of December 31, 2017 are \$17,529.

Total rent and common area maintenance charged to expense for the years ended December 31, 2017 and 2016 was \$111,700 and \$101,972, respectively.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE VI 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>
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>\$5,766</u>	<u>\$1,063</u>	<u>\$6,829</u>

NOTE VII 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 \$13,815 and \$12,081 for the years ended December 31, 2017 and 2016, respectively. Plan administration fees charged to expense were \$0 and \$2,740 for the years ended December 31, 2017 and 2016, respectively.

NOTE VIII INCOME TAXES

The Organization has been determined by the Internal Revenue Service to be exempt from Federal income tax under 501 (a) as described under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been established. The Organization files informational returns with the United States, Illinois and California. The Organization's informational returns for fiscal years subsequent to 2013 are open, by statute, for review by authorities. At December 31, 2017 there are no ongoing audits or unresolved disputes with the various tax authorities the Organization currently files or has filed with.

NOTE IX BOARD DESIGNATED NET ASSETS

The Board has designated \$52,000 in 2017 and 2016 as an endowment, and \$31,517 in 2016 for future projects.

NOTE X SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 2 2018, the date these financial statements were available for issuance, and determined there were no significant non-recognized events through that date.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE XI RELATED PARTY TRANSACTIONS

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

	<u>2017</u>	<u>2016</u>
Lundstrom Insurance	\$14,400	\$14,734
Prudential Insurance	7,312	--
Stockholm Inn	<u>-</u>	<u>5,579</u>
	<u>\$21,712</u>	<u>\$20,313</u>

NOTE XII FAIR VALUE MEASUREMENTS

The Accounting Standards Codification for fair value measurements established a framework for measuring fair value. The framework 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, 2017 the Money Market funds totaling \$108,329 were valued at cost and the Mutual Funds totaling \$18,477 were valued at the net asset value (NAV) of the shares held by the Organization. Both Money Market funds and Mutual Funds were valued 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 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.

KIDS AROUND THE WORLD, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE XIII ENDOWMENT FUND, Continued

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>2017</u>	<u>2016</u>
Board designated endowment:		
Beginning of year	\$52,000	\$52,000
Net investment gain	<u> --</u>	<u> --</u>
End of year	<u>\$52,000</u>	<u>\$52,000</u>

NOTE XIV NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued a number of new pronouncements that will affect the accounting for nonprofit organizations. They are:

- Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers*. This will amend revenue recognition to a more principle based accounting. It will be effective for the Organization's year ending December 31, 2019.
- ASU 2016-02 *Leases*. This will amend the treatment of operating leases by lessees by requiring them to be recorded on the Statement of Financial Position as an asset and a liability. It will be effective for the Organization's year ending December 31, 2020.
- ASU 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. It will amend the current net asset classification requirements to include only two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and the accounting and presentation of net assets. It will also provide more clarity regarding liquidity, transparency in reporting of financial performance measures and consistency in reporting expenses by function and nature. It will be effective for the Organization's year ending December 31, 2018.

Management is in the process of reviewing its records to ensure the Organization is prepared to implement the new standards as required. No determination has been made as to the effect of these on the Organization's financial statements.