

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)

JACKSON, MICHIGAN

FINANCIAL STATEMENTS

JULY 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
National Child Safety Council and Subsidiary
PO Box 1368
Jackson, MI 49204

We have audited the accompanying consolidated financial statements of NATIONAL CHILD SAFETY COUNCIL (the Council) and Subsidiary, which comprise of the consolidated statement of financial position as of July 31, 2015, and the related consolidated statement of activities, consolidated statement of cash flows, and consolidated statement of functional expenses for the year then ended, and the related notes to the financials.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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.

Auditors' 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 misstatements of the consolidated 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 National Child Safety Council and Subsidiary as of July 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Lally Group, PC

Jackson, Michigan

December 29, 2015

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)
JACKSON, MICHIGAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JULY 31, 2015

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 368,342
Contributions receivable - net	9,095
Other receivables	20,169
Inventory	155,256
Prepaid expenses	5,642
Total current assets	558,504
OTHER ASSETS:	
Property and equipment - net	1,134,990
Intangible assets - net	42,958
Total other assets	1,177,948
Total assets	\$ 1,736,452

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	\$ 185,662
Due to other organizations	585,264
Accrued expenses	104,878
Mortgage payable - current portion	50,237
Total current liabilities	926,041
LONG-TERM LIABILITIES:	
Mortgage payable - long-term portion	346,414
Total liabilities	1,272,455

NET ASSETS

Undesignated	(620,756)
Net investment in property and equipment	1,084,753
Total net assets	463,997
Total liabilities and net assets	\$ 1,736,452

(The accompanying notes are an integral part of these financial statements)

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2015

REVENUES:	
Contributions	\$ 2,701,296
Advertising revenue	127,449
Special fundraising - net	580,880
Rental activities - net	52,662
Other income	<u>2,814</u>
Total revenues	<u>3,465,101</u>
EXPENSES:	
Program services:	
Child safety education	1,152,145
Research and development	<u>144,673</u>
Total program services	<u>1,296,818</u>
Supporting services:	
Management and general	302,284
Special fundraising	402,164
Other fundraising	<u>1,340,386</u>
Total support services	<u>2,044,834</u>
Total expenses	<u>3,341,652</u>
EXCESS OF REVENUES OR (EXPENSES) - BEFORE OTHER INCOME (EXPENSES)	123,449
OTHER INCOME (EXPENSES) Gain (Loss) on sale of fixed assets	<u>45,280</u>
CHANGE IN NET ASSETS	168,729
NET ASSETS - BEGINNING	<u>295,268</u>
NET ASSETS - ENDING	<u><u>\$ 463,997</u></u>

(The accompanying notes are an integral part of these financial statements)

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 168,729
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	82,598
(Gain) Loss on sale of fixed assets	(45,280)
Change in:	
Contributions receivable - net	2,135
Other receivables	(4,677)
Inventory	(49,464)
Prepaid expenses	5,727
Accounts payable	(1,842)
Accrued liabilities	5,489
	<hr/>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<hr/> 163,415 <hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of fixed assets	65,280
Purchase of trademark	(1,250)
	<hr/>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<hr/> 64,030 <hr/>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on mortgage and installment contracts	(102,387)
Borrowings from related parties - net	98,051
	<hr/>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<hr/> (4,336) <hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	223,109
CASH AND CASH EQUIVALENTS - BEGINNING	<hr/> 145,233 <hr/>
CASH AND CASH EQUIVALENTS - ENDING	<hr/> <u>\$ 368,342</u> <hr/>
SUPPLEMENTAL DISCLOSURE	
Interest paid (net of \$0 capitalized)	\$ 29,371
Income taxes paid	\$ 0

(The accompanying notes are an integral part of these financial statements)

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2015

	<u>PROGRAM SERVICES</u>		
	<u>CHILD SAFETY EDUCATION</u>	<u>RESEARCH</u>	<u>TOTAL PROGRAM SERVICES</u>
COMPENSATION:			
Salaries	\$ 233,740	\$ 108,541	\$ 342,281
Employee benefits and taxes	<u>65,952</u>	<u>7,913</u>	<u>73,865</u>
Total compensation	299,692	116,454	416,146
OTHER EXPENSES:			
Educational publications and materials	472,056		472,056
Supplies	4,740		4,740
Travel			
Postage and copies	104,362		104,362
Legal and professional	6,419		6,419
Utilities	37,736		37,736
Automobile	77		77
Telephone	4,408		4,408
Maintenance and repairs	7,885		7,885
Filing fees and licenses	4,563		4,563
Insurance	116,820		116,820
Interest	9,093		9,093
Contract services	23,877		23,877
Dues and subscriptions			
Office and equipment rental	22,989		22,989
Data processing expense	3,306		3,306
Conventions and meetings	20,755		20,755
Miscellaneous	230	275	505
Property taxes and gaming taxes	1,115		1,115
Bingo paper and gaming products			
Advertising			
Total expenses before depreciation and amortization	<u>1,140,123</u>	<u>116,729</u>	<u>1,256,852</u>
Depreciation	12,022		12,022
Amortization of copyrights		<u>27,944</u>	<u>27,944</u>
Total expenses	<u>\$1,152,145</u>	<u>\$ 144,673</u>	<u>\$ 1,296,818</u>

(The accompanying notes are an integral part of these financial statements)

MANAGEMENT AND GENERAL	SUPPORTING SERVICES			TOTAL EXPENSES
	SPECIAL FUND RAISING	OTHER FUND RAISING	TOTAL SUPPORTING SERVICES	
\$ 112,287	\$ 23,490	\$ 873,697	\$ 1,009,474	\$ 1,351,755
9,579	1,713	71,435	82,727	156,592
<u>121,866</u>	<u>25,203</u>	<u>945,132</u>	<u>1,092,201</u>	<u>1,508,347</u>
				472,056
963	49,143		50,106	54,846
		376,076	376,076	376,076
1,411		654	2,065	106,427
6,419	7,222	6,419	20,060	26,479
26,666			26,666	64,402
39			39	116
4,408		4,408	8,816	13,224
12,102			12,102	19,987
571	26,000	571	27,142	31,705
44,946			44,946	161,766
8,705			8,705	17,798
26,000	32,109		58,109	81,986
3,639			3,639	3,639
12,166	51,900		64,066	87,055
				3,306
				20,755
742	22,726		23,468	23,973
12,263	676	1,115	14,054	15,169
	124,175		124,175	124,175
	63,010		63,010	63,010
<u>282,906</u>	<u>402,164</u>	<u>1,334,375</u>	<u>2,019,445</u>	<u>3,276,297</u>
19,378		6,011	25,389	37,411
				27,944
<u>\$ 302,284</u>	<u>\$ 402,164</u>	<u>\$ 1,340,386</u>	<u>\$ 2,044,834</u>	<u>\$ 3,341,652</u>

(The accompanying notes are an integral part of these financial statements)

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities -

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY (the Council) is a not-for-profit organization which promotes the importance of child safety to adults and children across the country. The Council accomplishes its goal by creating, producing, and distributing literature primarily to elementary schools. Donations are solicited to support these activities in addition to certain fundraising activities.

The Council shares common management, personnel, and facilities with certain other not-for-profit organizations in a coordinated effort to provide a wide range of child safety training and education.

Basis of Accounting -

The financial statements of the Council have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned. Expenses are recognized when incurred.

Cash and Cash Equivalents -

Cash and cash equivalents include all monies in banks and petty cash on hand.

Estimates -

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

Basis of Presentation -

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Not-for-Profit Organizations (FASB ASC 958-205). Under FASB ASC 958-205 the Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Inventory -

Inventory consists of educational materials and supplies for child safety programs. It is stated at the lower of cost or market by using the first-in, first-out (FIFO) method. The materials are charged to the expense when they are shipped to the sponsoring organizations.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions and Pledges Receivable -

Program representatives obtain pledges from businesses and organizations with the communities who choose to conduct child safety programs utilizing the Council's materials and resources in order to support the effort. Contributions are reported as revenue when received. Accordingly, a contribution receivable is recorded at year end for outstanding pledges with an allowance for amounts estimated to be uncollectible. Uncollectible pledges are written off after a reasonable period following the delivery of the child safety program.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the contribution are both reported as unrestricted support. Other restricted contributions are reported as restricted support and temporarily or permanently restricted net assets.

Deferred Expenses -

Deferred expenses pertain to the Council's development of child safety programs and materials which are copyrighted or trademarked. The capitalized amount is amortized over 15 years to match costs with related revenues. Amortization expense for the year ended July 31, 2015, was \$27,944.

Special Fundraising -

Special fundraising revenue is the net gain from charitable gaming activities, which is the difference between charitable gaming gross revenues and related charitable gaming payouts.

Functional Allocation of Expenses -

The costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different result.

Income Taxes -

The Council, as described in Section 501(c)(3) of the Internal Revenue Code, is exempt from federal and state income taxes. In addition, the Internal Revenue Service has determined the Council is not a "Private Foundation" within the meaning of Section 509(a)(1) of the Internal Revenue Code. The Council has adopted the provisions of FASB ASC 740-10. The adoption of FASB ASC 740-10 has not resulted in any changes in tax provisions. There are no known federal or state tax contingencies. The Internal

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income Taxes - (Continued) :

Revenue Service also requires a not-for-profit organization to file a 990-T Exempt Organization Business Income Tax Return, a tax return for unrelated business revenues in excess of \$1,000. The Council receives unrelated revenue from rental income and is therefore required to file a 990-T.

The Council and Subsidiary's federal income tax returns for 2014 and 2013 remain open to examination by the Internal Revenue Service. In evaluating the Council's tax provisions, the Council and Subsidiary believe that its estimates are appropriate based on current facts and circumstances.

Subsequent Events -

Subsequent events have been evaluated through December 29, 2015, which is the date the financial statements were available to be issued.

A balloon payment was due on the Council's mortgage on August 15, 2014. The Council continued to make its monthly principal and interest payment (as referenced in Note 5) while working to renegotiate the terms of the mortgage. Subsequent to the end of the fiscal year, the terms of the mortgage were successfully renegotiated by the Council.

NOTE 2 - FIXED ASSETS:

The following is a summary of fixed assets at July 31, 2015:

Land	\$ 224,000
Land improvements	133,262
Buildings	1,304,483
Building improvements	750,068
Machinery and equipment	917,031
Furniture and fixtures	<u>105,907</u>
Total	3,434,751
Less: Accumulated depreciation	<u>(2,299,761)</u>
Net fixed assets	<u>\$ 1,134,990</u>

Certain property included above is used by the Council in its rental activities reported under revenue. Depreciation expense at July 31, 2015, related to that property was \$17,243 and netted against the related amounts for rental activities. The remaining depreciation of \$37,411 was included in expenses in the consolidated statement of functional expenses.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INTANGIBLE ASSETS:

The following is a summary of intangible assets at July 31, 2015:

Copyrights	\$ 835,812
Goodwill	225,647
Non compete covenant	5,000
Trademarks	<u>64,504</u>
Total	1,130,963
Less: Accumulated depreciation	<u>(1,088,005)</u>
Net intangible assets	<u>\$ 42,958</u>

Amortization expense for the year ended July 31, 2015, of \$27,944 was included in the consolidated statement of functional expenses.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following amounts at July 31, 2015:

Contributions receivable	\$ 19,097
Less: Allowance for uncollectible contributions	<u>(10,002)</u>
Contributions receivable – net	<u>\$ 9,095</u>

Contributions are expected to be collected within one year.

NOTE 5 - NOTES PAYABLE:

The Council obtained a mortgage in the amount of \$1,294,371 in August 1999. Principal and interest payments of \$10,232 are payable monthly, with an interest rate at 4.68%. A balloon payment was due August 15, 2014. The balloon payment was not made and the council continued to make monthly principal and interest payment while working to renegotiate the mortgage. The balance of the mortgage at July 31, 2015, is \$396,651.

In August 2015, subsequent to the fiscal year end, the Council successfully renegotiated the mortgage. The new agreement was for a three year term, with an interest rate of 4% and monthly principal and interest payments of \$5,432.

Principal payments due for the subsequent years ended July 31st are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 50,237
2017	52,284
2018	<u>294,130</u>
	<u>\$ 396,651</u>

Interest expense accrued and paid on all borrowings was \$20,278 for the year ended July 31, 2015.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - OTHER RELATED PARTY TRANSACTIONS:

The following is a summary of amounts due to related parties at July 31, 2015:

H.R. Wilkinson (Council Founder)	\$ 32,678
National Fire Safety Council	448,521
National Drug and Safety League	102,465
United States Fire Safety Services	<u>1,600</u>
Total due to related parties	<u>\$ 585,264</u>

National Fire Safety Council, National Drug and Safety League and United States Fire Safety Services are all under common management with the Council and its subsidiary. These unsecured loans have no stated interest or repayment terms.

NOTE 7 - JOINT COSTS:

The Council incurs certain expenses (i.e., salaries, employee benefits and taxes, and travel for the field services of safety counselors) that are considered to be joint activity costs pursuant to FASB ASC 958-720. Under this standard, a “joint activity” is an activity that is part of the fundraising function and has elements of one or more other functions, such as program or management and general.

FASB ASC 958-720 established various criteria relating to purpose, audience, and content for the purpose of determining whether the cost of the joint activity should be allocated among functional categories or charged entirely to fundraising. Management believes that the Council’s joint activity meets all of the FASB ASC 958-720 criteria necessary to permit allocation, except for certain considerations regarding compensation for performance of the joint activity. In this instance, the Council’s safety counselors are compensated based on the contributions raised by the joint activity. While this is an integral incentive to promote performance and the Council has conducted studies which document that its safety counselors are spending less than 25 percent of their time on fundraising, FASB ASC 958-720 nonetheless, requires that all costs of the joint activity be charged to fundraising because of the compensation arrangement.

Accordingly, to conform with the generally accepted accounting principles, the Council has reported the entire cost of the joint activity, which for the year ended July 31, 2015, totaled \$1,133,956 within fundraising expense in the accompanying consolidated statement of activities. If the Council were allowed to allocate the costs of the joint activity, the distribution of such costs would have been as follows for the year ended July 31, 2015:

Program services	\$ 850,467
Fundraising	<u>283,489</u>
Total	<u>\$ 1,133,956</u>