

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)

JACKSON, MICHIGAN

FINANCIAL STATEMENTS

JULY 31, 2016

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WILLIS & JURASEK
CPAS AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors of
National Child Safety Council and Subsidiary

We have audited the accompanying consolidated financial statements of National Child Safety Council (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of July 31, 2016, and the related consolidated 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 consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement 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 consolidated 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 consolidated 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 consolidated 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, 2016, 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.

Willis & Jurasek, P.C.

February 15, 2017

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JULY 31, 2016

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 669,038
Contributions receivable - net	10,556
Other receivables	9,259
Inventory	278,944
Prepaid expenses	61,366
Notes receivable - current portion	246,500
Total current assets	1,275,663
OTHER ASSETS:	
Property and equipment - net	1,053,738
Intangible assets - net	15,014
Total other assets	1,068,752
Total assets	\$ 2,344,415

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	\$ 252,455
Due to related parties	546,918
Accrued expenses	109,042
Mortgage payable - current portion	58,751
Total current liabilities	967,166
LONG-TERM LIABILITIES:	
Mortgage payable - long-term portion	128,934
Total liabilities	1,096,100

NET ASSETS

Undesignated, unrestricted	1,248,315
Total liabilities and net assets	\$ 2,344,415

(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, 2016

REVENUES:	
Contributions	2,816,687
Advertising revenue	151,124
Special fundraising - net	735,542
Rental activities - net	45,103
Other income	16,890
	<u>3,765,346</u>
Total revenues	
EXPENSES:	
Program services:	
Child safety education	1,069,815
Research and development	153,438
Total program services	<u>1,223,253</u>
Supporting services:	
Management and general	426,138
Special fundraising	427,705
Other fundraising	1,429,675
Total support services	<u>2,283,518</u>
Total expenses	<u>3,506,771</u>
EXCESS OF REVENUES OR (EXPENSES) - BEFORE OTHER INCOME (EXPENSES)	258,575
OTHER INCOME (EXPENSES) Gain (Loss) on sale of fixed assets	<u>531,820</u>
EXCESS OF REVENUES OR (EXPENSES) - BEFORE INCOME TAX	790,395
FEDERAL INCOME TAX EXPENSE	<u>6,077</u>
CHANGE IN NET ASSETS	784,318
NET ASSETS - BEGINNING	<u>463,997</u>
NET ASSETS - ENDING	<u>\$ 1,248,315</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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 784,318
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	74,352
(Gain) Loss on sale of fixed assets	(531,820)
Change in:	
Contributions receivable - net	(1,461)
Other receivables	10,910
Inventory	(123,688)
Prepaid expenses	(55,724)
Accounts payable	66,793
Accrued expenses	4,164
	<hr/>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>227,844</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of fixed assets - net of expenses	580,150
Purchase of equipment	(13,486)
Loan to Urban Offerings	(246,500)
	<hr/>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>320,164</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on mortgage	(208,966)
Borrowings from related parties - net	(38,346)
	<hr/>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(247,312)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	300,696
CASH AND CASH EQUIVALENTS - BEGINNING	<u>368,342</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 669,038</u></u>
SUPPLEMENTAL DISCLOSURE	
Interest paid (net of \$0 capitalized)	\$ 19,008
Income taxes paid	\$ 6,077

(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, 2016

	<u>PROGRAM SERVICES</u>		
	<u>CHILD SAFETY EDUCATION</u>	<u>RESEARCH</u>	<u>TOTAL PROGRAM SERVICES</u>
COMPENSATION:			
Salaries	\$ 261,408	\$ 108,549	\$ 369,957
Employee benefits and taxes	39,768	16,514	56,282
Total compensation	<u>301,176</u>	<u>125,063</u>	<u>426,239</u>
OTHER EXPENSES:			
Educational publications and materials	480,538		480,538
Supplies	3,336	70	3,406
Travel and company paid expenses	8,296		8,296
Postage and copies	8,206		8,206
Legal and professional	22,109		22,109
Utilities	17,746		17,746
Automobile	1,399		1,399
Telephone	3,959		3,959
Maintenance and repairs	11,516		11,516
Filing fees and licenses	4,554		4,554
Insurance	95,241		95,241
Interest	7,818		7,818
Contract services	17,486		17,486
Dues and subscriptions			
Office and equipment rental	10,689		10,689
Data processing expense	4,430		4,430
Conventions and meetings	47,418		47,418
Miscellaneous	13,102	361	13,463
Property taxes and gaming taxes			
Bingo paper and gaming products			
Advertising			
Total expenses before depreciation and amortization	<u>1,059,019</u>	<u>125,494</u>	<u>1,184,513</u>
Depreciation	10,796		10,796
Amortization of copyrights		<u>27,944</u>	<u>27,944</u>
Total expenses	<u>\$1,069,815</u>	<u>\$ 153,438</u>	<u>\$ 1,223,253</u>

(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, 2016

MANAGEMENT AND GENERAL	SUPPORTING SERVICES			TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
	SPECIAL FUND RAISING	OTHER FUND RAISING			
\$ 166,264	\$ 23,400	\$ 903,400	\$ 1,093,064	\$ 1,463,021	
25,294	1,861	74,814	101,969	158,251	
<u>191,558</u>	<u>25,261</u>	<u>978,214</u>	<u>1,195,033</u>	<u>1,621,272</u>	
					480,538
3,026	53,820	4,086	60,932	64,338	
8,296		328,231	336,527	344,823	
1,402		91,963	93,365	101,571	
22,109	20,051	4,913	47,073	69,182	
34,555		17,746	52,301	70,047	
700			700	2,099	
4,247		3,959	8,206	12,165	
14,256			14,256	25,772	
563	19,192	563	20,318	24,872	
71,021			71,021	166,262	
4,803			4,803	12,621	
26,450	31,117		57,567	75,053	
260			260	260	
4,845	64,800		69,645	80,334	
1,094			1,094	5,524	
				47,418	
8,223	25,635		33,858	47,321	
10,361			10,361	10,361	
	128,626		128,626	128,626	
	59,203		59,203	59,203	
<u>407,769</u>	<u>427,705</u>	<u>1,429,675</u>	<u>2,265,149</u>	<u>3,449,662</u>	
18,369			18,369	29,165	
				27,944	
<u>\$ 426,138</u>	<u>\$ 427,705</u>	<u>\$ 1,429,675</u>	<u>\$ 2,283,518</u>	<u>\$ 3,506,771</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 -

The consolidated financial statements include the accounts of National Child Safety Council, and its wholly-owned subsidiary, Child Safety of America, Inc. (collectively referred to as the Organization).

National Child Safety Council a not-for-profit organization which promotes the importance of child safety to adults and children across the country. The Organization 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.

Child Safety of America, Inc. (the Subsidiary), the subsidiary of the Organization, is a for-profit corporation, also supporting the promotion of the importance of child safety through the sale of advertisements to be printed on the child safety literature it distributes.

The Organization 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 Organization 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.

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 Organization 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.

Cash and Cash Equivalents -

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

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

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

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.

Contributions and Pledges Receivable -

Program representatives obtain pledges from businesses and organizations with the communities who choose to conduct child safety programs utilizing the Organization'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.

Property and Equipment -

Property and equipment are carried at cost. Depreciation is provided using the straight-line method for financial reporting purposes over the estimated useful lives of depreciable assets. Maintenance and repairs that do not improve or extend the useful lives of assets are expensed in the period the cost is incurred.

Intangible Assets -

Intangible Assets pertain to the Organization'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, 2016, was \$27,944. See Note 6.

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.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

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

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 Organization, as described in Section 501(c)(3) of the Internal Revenue Code, is exempt from federal and state income taxes. The Organization 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 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 Organization receives unrelated revenue from rental income and is therefore required to file a 990-T.

The Organization and Subsidiary's federal income tax returns for 2015 and 2014 remain open to examination by the Internal Revenue Service. In evaluating the Organization's tax provisions, the Organization and Subsidiary believe that its estimates are appropriate based on current facts and circumstances.

Subsequent Events -

Management has evaluated subsequent events and transactions for potential recognition or disclosure through February 15, 2017, the date that the financial statements were available to be issued. Subsequent to the fiscal year ended July 31, 2016, multiple transactions occurred, which further solidified the financial position of the Organization.

On December 28, 2016, the Organization sold the commercial rental property it had owned in Springfield, Illinois for \$425,000. As a result of the sale, the Organization paid off the outstanding mortgage, and deposited \$207,298.

During January 2017, the Organization became the benefactor of a life insurance policy. Proceeds from the life insurance policy totaling \$375,000 are expected to be received during February 2017.

On February 3, 2017, the Organization received a final payoff of \$246,074 on the note receivable from the December 2015 sale of property located in Indianapolis, Indiana.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CONCENTRATIONS OF CREDIT RISK:

The Organization maintains cash balances at various financial institutions. Accounts at each institution are insured by the FDIC up to \$250,000. At various times during the fiscal year the Organization's cash balances may have exceeded the federally insured limit. At July 31, 2016, uninsured cash balances totaled \$12,288.

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following amounts at July 31, 2016:

Contributions receivable	\$ 20,466
Less: Allowance for uncollectible contributions	<u>(9,910)</u>
Contributions receivable – net	<u>\$ 10,556</u>

Contributions are expected to be collected within one year.

NOTE 4 - NOTES RECEIVABLE:

On December 15, 2015, the Organization sold property located in Indianapolis, Indiana, and issued a mortgage to the purchaser at a rate of 6% per annum, due by June 30, 2016. The original promissory note of \$247,500 was amended to require principal payments of \$1,000 per month beginning July 15, 2016, with the balance to be paid by December 31, 2016. As of July 31, 2016, the balance of the note receivable is \$246,500.

NOTE 5 - FIXED ASSETS:

The following is a summary of fixed assets at July 31, 2016:

Land	\$ 176,000
Land improvements	66,470
Buildings	1,304,483
Building improvements	746,834
Machinery and equipment	923,287
Furniture and fixtures	<u>105,907</u>
Total	3,322,981
Less: Accumulated depreciation	<u>(2,269,243)</u>
Net fixed assets	<u>\$ 1,053,738</u>

Certain property included above is used by the Organization in its rental activities reported under revenue. Depreciation expense at July 31, 2016, related to that property was \$17,243 and netted against the related amounts for rental activities. The remaining depreciation of \$29,165 was included in expenses in the consolidated statement of functional expenses.

NOTE 6 - INTANGIBLE ASSETS:

The following is a summary of intangible assets at July 31, 2016:

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - INTANGIBLE ASSETS – (Continued) :

Copyrights	\$ 835,812
Goodwill	225,647
Non-compete covenant	5,000
Trademarks	<u>64,504</u>
Total	1,130,963
Less: Accumulated amortization	<u>(1,115,949)</u>
Net intangible assets	<u>\$ 15,014</u>

Amortization expense for the year ended July 31, 2016, of \$27,944 was included in the consolidated statement of functional expenses.

NOTE 7 - DUE TO RELATED PARTIES (Continued):

The following is a summary of amounts due to related parties at July 31, 2016:

National Fire Safety Council	\$ 391,673
National Drug and Safety League	111,161
H.R. Wilkinson (Founder Emeritus)	32,215
Harley Kaufman (President)	10,269
United States Fire Safety Services	<u>1,600</u>
Total due to related parties	<u>\$ 546,918</u>

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

NOTE 8 - NOTES PAYABLE:

The Organization obtained a mortgage in the amount of \$1,294,371 in August 1999. In August 2015, the Organization renegotiated the mortgage. The renegotiated agreement was for a three-year term, with an interest rate of 4% per annum and monthly principal and interest payments of \$5,432. The balance of the mortgage as of July 31, 2016 is \$187,685.

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

<u>Year</u>	<u>Amount</u>
2017	\$ 58,751
2018	<u>128,934</u>
	<u>\$ 187,685</u>

Interest expense accrued and paid on all borrowings was \$19,008 for the year ended July 31, 2016.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - JOINT COSTS:

The Organization 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 Organization'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 Organization'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 Organization has concluded that its safety counselors are spending less than 10 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 Organization has reported the entire cost of the joint activity, which for the year ended July 31, 2016, totaled \$1,259,588 within fundraising expense in the accompanying consolidated statement of activities. If the Organization 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, 2016:

Program services	\$ 1,133,629
Fundraising	<u>125,959</u>
Total	<u>\$ 1,259,588</u>