

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)

JACKSON, MICHIGAN

FINANCIAL STATEMENTS

JULY 31, 2014

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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, 2014, 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, 2014, 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.

Emphasis-of-Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Council will continue as a going concern. As discussed in Note 8 to the financial statements, the Council's continued operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Respectfully submitted,

Lally Group, PC

Jackson, Michigan

November 28, 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JULY 31, 2014

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 145,233
Contributions receivable - net	11,230
Other receivables	15,492
Inventory	105,792
Prepaid expenses	11,369
Total current assets	289,116
OTHER ASSETS:	
Property and equipment - net	1,209,644
Intangible assets - net	69,652
Total other assets	1,279,296
Total assets	\$ 1,568,412

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	\$ 187,504
Due to other organizations	487,213
Accrued expenses	99,389
Mortgage payable - current portion	499,038
Total current liabilities	1,273,144

NET ASSETS

Undesignated	(415,338)
Net investment in property and equipment	710,606
Total net assets	295,268
Total liabilities and net assets	\$ 1,568,412

(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, 2014

REVENUES:	
Contributions	\$ 2,497,745
Advertising revenue	121,672
Special fundraising - net	499,249
Rental activities - net	12,443
Other income	<u>354</u>
Total revenues	<u>3,131,463</u>
EXPENSES:	
Program services:	
Child safety education	1,213,643
Research and development	<u>147,958</u>
Total program services	<u>1,361,601</u>
Supporting services:	
Management and general	452,154
Special fundraising	373,989
Other fundraising	<u>1,350,688</u>
Total support services	<u>2,176,831</u>
Total expenses	3,538,432
CHANGE IN NET ASSETS	(406,969)
NET ASSETS - BEGINNING	<u>702,237</u>
NET ASSETS - ENDING	<u><u>\$ 295,268</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (406,969)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	55,629
Contributions receivable - net	4,612
Other receivables	(9,291)
Inventory	94,334
Prepaid expenses	(4,359)
Deferred expenses	43,292
Accounts payable	81,838
Accrued liabilities	<u>22,925</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(117,989)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on mortgage and installment contracts	(96,554)
Borrowings from related parties - net	<u>136,880</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>40,326</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,663)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>222,896</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 145,233</u>
SUPPLEMENTAL DISCLOSURE	
Interest paid (net of \$0 capitalized)	\$ 35,659
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, 2014

	<u>PROGRAM SERVICES</u>		
	<u>CHILD SAFETY EDUCATION</u>	<u>RESEARCH</u>	<u>TOTAL PROGRAM SERVICES</u>
COMPENSATION:			
Salaries	\$ 242,882	\$ 109,933	\$ 352,815
Employee benefits and taxes	<u>64,865</u>	<u>8,192</u>	<u>73,057</u>
Total compensation	307,747	118,125	425,872
OTHER EXPENSES:			
Educational publications and materials	526,766		526,766
Supplies	10,970		10,970
Travel			
Postage and copies	93,242		93,242
Legal and professional	7,606		7,606
Utilities	31,697		31,697
Automobile	471		471
Telephone	4,851		4,851
Maintenance and repairs	12,817		12,817
Filing fees and licenses	7,088		7,088
Insurance	110,765		110,765
Interest	9,424		9,424
Contract services	23,881		23,881
Dues and subscriptions			
Office and equipment rental	25,391		25,391
Data processing expense			
Conventions and meetings	22,570		22,570
Miscellaneous	4,580	1,973	6,553
Property taxes and gaming taxes	1,268		1,268
Bingo paper and gaming products			
Advertising			
Total expenses before depreciation and amortization	<u>1,201,134</u>	<u>120,098</u>	<u>1,321,232</u>
Depreciation	12,509		12,509
Amortization of copyrights		<u>27,860</u>	<u>27,860</u>
Total expenses	<u>\$1,213,643</u>	<u>\$ 147,958</u>	<u>\$ 1,361,601</u>

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

MANAGEMENT AND GENERAL	SUPPORTING SERVICES		TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
	SPECIAL FUND RAISING	OTHER FUND RAISING		
\$ 116,383	\$ 23,490	\$ 769,883	\$ 909,756	\$ 1,262,571
10,474	1,750	66,481	78,705	151,762
<u>126,857</u>	<u>25,240</u>	<u>836,364</u>	<u>988,461</u>	<u>1,414,333</u>
				526,766
4,717	38,406		43,123	54,093
		491,777	491,777	491,777
1,761		1,030	2,791	96,033
7,606	5,722	7,606	20,934	28,540
35,552			35,552	67,249
684			684	1,155
4,851	827	4,851	10,529	15,380
13,404			13,404	26,221
1,049	26,050	1,050	28,149	35,237
53,331			53,331	164,096
11,263			11,263	20,687
82,105	32,687		114,792	138,673
3,478			3,478	3,478
12,696	51,900		64,596	89,987
20,004			20,004	20,004
				22,570
429	10,725	1,755	12,909	19,462
37,312			37,312	38,580
	119,916		119,916	119,916
	62,516		62,516	62,516
<u>417,099</u>	<u>373,989</u>	<u>1,344,433</u>	<u>2,135,521</u>	<u>3,456,753</u>
19,622		6,255	25,877	38,386
<u>15,433</u>			<u>15,433</u>	<u>43,293</u>
<u>\$ 452,154</u>	<u>\$ 373,989</u>	<u>\$ 1,350,688</u>	<u>\$ 2,176,831</u>	<u>\$ 3,538,432</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 10 years to match costs with related revenues. Amortization expense for the year ended July 31, 2014 was \$43,293.

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 2013 and 2012 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.

NOTE 2 - FIXED ASSETS:

The following is a summary of fixed assets at July 31, 2014:

Land	\$ 244,000
Land improvements	133,262
Buildings	1,304,483
Building improvements	750,067
Machinery and equipment	941,831
Furniture and fixtures	<u>109,160</u>
Total	3,482,803
Less: Accumulated depreciation	<u>(2,273,159)</u>
Net fixed assets	<u>\$ 1,209,644</u>

Certain property included above is used by the Council in its rental activities reported under revenue. Depreciation expense at July 31, 2014, related to that property was \$17,243 and netted against the related amounts for rental activities. The remaining depreciation of \$38,386 was included in expenses in the consolidated statement of functional expenses.

NOTE 3 - INTANGIBLE ASSETS:

The following is a summary of intangible assets at July 31, 2014:

Copyrights	\$ 835,812
Goodwill	225,647
Non compete covenant	5,000
Trademarks	<u>63,254</u>
Total	1,129,713
Less: Accumulated depreciation	<u>(1,060,061)</u>
Net intangible assets	<u>\$ 69,652</u>

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INTANGIBLE ASSETS (Continued):

Amortization expense for the year ended July 31, 2014, of \$43,293 was included in the consolidated statement of functional expenses.

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following amounts at July 31, 2014:

Contributions receivable	\$ 26,218
Less: Allowance for uncollectible contributions	<u>(14,988)</u>
Contributions receivable – net	<u>\$ 11,230</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 is due August 15, 2014. The balance of the mortgage at July 31, 2014, is \$499,038.

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

<u>Year</u>	<u>Amount</u>
2015	<u>\$499,038</u>

Interest expense accrued and paid on all borrowings was \$26,235 for the year ended July 31, 2014.

NOTE 6 - OTHER RELATED PARTY TRANSACTIONS:

The following is a summary of amounts due to related parties at July 31, 2014:

H.R. Wilkinson (Council Founder)	\$ 33,259
National Fire Safety Council	403,034
National Drug and Safety League	49,320
United States Fire Safety Services	<u>1,600</u>
Total due to related parties	<u>\$ 487,213</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.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

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, 2014, totaled \$1,190,708 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, 2014:

Program services	\$ 893,031
Fundraising	<u>297,677</u>
Total	<u>\$ 1,190,708</u>

NOTE 8 - GOING CONCERN:

The accompanying consolidated financial statements have been prepared assuming that the Council will continue as a going concern.

The Council has reported a negative change in net assets for three of the past four years. This decline in operating results and the general environment for nonprofit organizations raises substantial doubt about the Council's ability to continue as a going concern. However, the material and consequential steps already taken and being planned by the Council to improve its financial health ameliorate those concerns as follows:

- Management has successfully recruited several safety representatives for states where the Council's child safety programs were greatly underutilized. Management continues to aggressively search for additional safety representatives to fill other underserved areas of the country. Management expects related contribution revenues to increase as a result of the additional safety representatives.

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - GOING CONCERN (Continued) :

- The Council has reduced publication offerings by half. Management expects this reduction will significantly lower inventory costs as well as new printing costs. Council has also embarked on a continuing program of adjusting pricing for all their publications.
- The Council has embraced new technologies that will permit donors to make their contributions electronically by credit card, either on a one-time basis or on a continuing monthly basis for periods of either one or two years.
- Management has instituted a new format for recovery of fundraising costs. Direct mail fundraising costs will now be deducted directly from individual program fundraising as it is generated. Management anticipates this one change will significantly improve Council finances when fully implemented.
- The Council is testing other initiatives to increase the “openability” of the solicitation envelopes mailed to prospective donors. Among them are color, non-profit stamps rather than indicia, and personalized messages on the outside of the envelope.

NOTE 9 - SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 28, 2014, 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 has continued to make its monthly principal and interest payment (as referenced in Note 5) as they work with the bank to restructure the loan.