NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)

JACKSON, MICHIGAN

FINANCIAL STATEMENTS

JULY 31, 2017

CONTENTS

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, 2017, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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, 2017, 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 6, 2018

NATIONAL CHILD SAFETY COUNCIL AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JULY 31, 2017

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 874,420
Investments	501,421
Contributions receivable - net	6,232
Other receivables	170
Inventory	330,502
Prepaid expenses	125,326
Due from related parties	15,435
Total current assets	1,853,506
OTHER ASSETS:	
Intangible assets - net	1,000
PROPERTY, PLANT AND EQUIPMENT:	
Property and equipment - net	301,736
Total assets	$ 2,156,242

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	$ 142,965
Accrued expenses	84,451
Due to related parties	419,616
Total current liabilities	647,032

NET ASSETS

Undesignated, unrestricted	1,509,210
Total liabilities and net assets	$ 2,156,242

(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, 2017

REVENUES:	
Contributions	$ 2,895,087
Advertising revenue	146,488
Special fundraising - net	700,004
Rental activities - net	12,673
Other operating income	1,842
Total revenues	3,756,094
EXPENSES:	
Program services:	
Child safety education	1,151,634
Research and development	134,311
Total program services	1,285,945
Supporting services:	
Management and general	426,860
Special fundraising	414,109
Other fundraising	1,398,194
Total support services	2,239,163
Total expenses	3,525,108
EXCESS OF REVENUES OR (EXPENSES) - BEFORE OTHER INCOME (EXPENSES)	230,986
OTHER INCOME (EXPENSES)	
Interest income	13,473
Investment fees	(905)
Unrealized gain (loss) on investments	328
Gain (Loss) on sale of fixed assets	(386,501)
Other income	406,957
Total other income (expenses)	33,352
EXCESS OF REVENUES OR (EXPENSES) - BEFORE INCOME TAX	264,338
FEDERAL INCOME TAX EXPENSE	3,443
CHANGE IN NET ASSETS	260,895
NET ASSETS - BEGINNING	1,248,315
NET ASSETS - ENDING	$ 1,509,210

(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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 260,895
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	42,175
Unrealized (gain) loss on investments	(328)
(Gain) Loss on sale of fixed assets	386,501
Change in:	
Contributions receivable - net	4,324
Other receivables	9,089
Inventory	(51,558)
Prepaid expenses	(63,960)
Accounts payable	(109,490)
Accrued expenses	(24,591)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	453,057
CASH FLOWS FROM INVESTING ACTIVITIES:	
Advances to related parties	(15,435)
Proceeds from sale of fixed assets - net of expenses	393,389
Purchase of equipment	(56,049)
Repayment from notes receivable	246,500
Net sales (purchases) of investments	(501,093)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	67,312
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on mortgage	(187,685)
Repayments to related parties	(127,302)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(314,987)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	205,382
CASH AND CASH EQUIVALENTS - BEGINNING	669,038
CASH AND CASH EQUIVALENTS - ENDING	$ 874,420
SUPPLEMENTAL DISCLOSURE	
Interest paid (net of $0 capitalized)	$ 10,090
Income taxes paid	$ 3,443

(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, 2017

	PROGRAM SERVICES		
	CHILD SAFETY EDUCATION	RESEARCH	TOTAL PROGRAM SERVICES
COMPENSATION:			
Salaries	$ 293,419	$ 104,049	$ 397,468
Employee benefits and taxes	42,846	15,018	57,864
Total compensation	336,265	119,067	455,332
OTHER EXPENSES:			
Educational publications and materials	541,098		541,098
Supplies	17,749	435	18,184
Travel and company paid expenses	8,612		8,612
Postage and copies	11,942		11,942
Legal and professional	29,206	425	29,631
Utilities	9,562		9,562
Automobile	1,194		1,194
Telephone	5,238		5,238
Maintenance and repairs	11,113		11,113
Filing fees and licenses	4,595		4,595
Insurance	85,909		85,909
Interest	3,798		3,798
Contract services	12,696		12,696
Dues and subscriptions			
Office and equipment rental	15,123		15,123
Data processing expense			
Conventions and meetings	47,096		47,096
Miscellaneous		370	370
Property taxes and gaming taxes			
Bingo paper and gaming products			
Advertising	57		57
Total expenses before depreciation and amortization	1,141,253	120,297	1,261,550
Depreciation	10,381		10,381
Amortization of copyrights		14,014	14,014
Total expenses	$1,151,634	$ 134,311	$ 1,285,945

(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, 2017

SUPPORTING SERVICES				
MANAGEMENT AND GENERAL	SPECIAL FUND RAISING	OTHER FUND RAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
$ 177,916	$ 14,625	$ 883,645	$ 1,076,186	$ 1,473,654
25,614	1,946	76,323	103,883	161,747
203,530	16,571	959,968	1,180,069	1,635,401
				541,098
6,258	60,216	17,415	83,889	102,073
8,611		293,174	301,785	310,397
2,851		95,910	98,761	110,703
29,206	7,371	6,490	43,067	72,698
13,910		9,562	23,472	33,034
1,194			1,194	2,388
5,403		5,238	10,641	15,879
6,756		9,862	16,618	27,731
575	26,050	575	27,200	31,795
48,804			48,804	134,713
4,868			4,868	8,666
15,770	30,836		46,606	59,302
333			333	333
7,562	66,200		73,762	88,885
56,630			56,630	56,630
				47,096
9	25,995		26,004	26,374
3,939			3,939	3,939
	121,573		121,573	121,573
56	59,297		59,353	59,410
416,265	414,109	1,398,194	2,228,568	3,490,118
10,595			10,595	20,976
				14,014
$ 426,860	$ 414,109	$ 1,398,194	$ 2,239,163	$ 3,525,108

(The accompanying notes are an integral part of these 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 is 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. The related organizations also share costs related to employees, occupancy and operations. These expenses are allocated based on the volume of activity for each entity.

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.

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

Investments -

The Organization classifies its investments as available-for-sale securities. Available-for-sale securities are recorded at fair value, with the change in fair value recorded as unrealized gain (loss) on investments.

Fair Value Measurements -

US GAAP establishes a fair value measurement framework, including a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under US GAAP are distinguished by inputs to the valuation methodology summarized as follows:

Level 1 (highest priority) – Quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and model-driven valuations in which all significant inputs or significant value drivers are observable in active markets.

Level 3 (lowest priority) – Management's best estimate of what market participants would use in pricing the instrument at the measurement date and model-driven valuations which are unobservable and significant to the fair value measurement.

The assessed level is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for amounts measured at fair value:

Level 1 inputs – Descriptions of the valuation methodologies used for assets measured at fair value are as follows: common stocks, corporate bonds, and U.S. government securities valued at the closing price reported on the active market on which the individual securities are traded.

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. Inventory also includes a minimal amount of supplies for the special fundraising activities.

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 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.

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.

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

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 a three year period 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 6, 2018, the date that the financial statements were available to be issued. No significant events were identified that would require adjustment or disclosure in the 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, 2017, uninsured cash balances totaled $115,719.

NOTE 3 - FAIR VALUE OF INVESTMENTS

The fair value of the Organization's investments are all classified as Level 1 investments, according to the Organization's policy described in Note 1.

The following is a breakdown of the change in Level 1 value for the year ended July 31, 2017:

Beginning Level 1 value	$ 0
Purchases	500,000
Interest and Dividends	1,998
Investment Fees	(905)
Change in market value	328
Ending Level 1 Value	$ 501,421

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following amounts at July 31, 2017:

Contributions receivable	$ 17,532
Less: Allowance for uncollectible contributions	(11,300)
Contributions receivable – net	$ 6,232

Contributions are expected to be collected within one year.

NOTE 5 - 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. The final payment on the note was received February 3, 2017, and the balance as of July 31, 2017 is $0.

NOTE 6 - DUE FROM RELATED PARTIES:

The following is a summary of amounts due from related parties as of July 31, 2017:

United States Fire Safety Services	$ 15,435

United States Fire Safety Services is under common management with the Organization. The unsecured loans have no stated interest or repayment terms.

NOTE 7 - INTANGIBLE ASSETS:

The following is a summary of intangible assets at July 31, 2017:

Copyrights	$ 835,812
Trademarks	64,504
Total	900,316
Less: Accumulated amortization	(899,316)
Net intangible assets	$ 1,000

Amortization expense for the year ended July 31, 2017, of $14,014 was included in the consolidated statement of functional expenses.

NOTE 8 - FIXED ASSETS:

The following is a summary of fixed assets at July 31, 2017:

NOTE 8 - FIXED ASSETS (Continued):

Land	$ 68,000
Land improvements	66,470
Buildings	126,135
Building improvements	767,238
Machinery and equipment	926,656
Furniture and fixtures	75,796
Total	2,030,295
Less: Accumulated depreciation	(1,728,559)
Net fixed assets	$ 301,736

Certain property included above is used by the Organization in its rental activities reported under revenue. Depreciation expense at July 31, 2017, related to that property was $7,185 and netted against the related amounts for rental activities. The remaining depreciation of $20,976 was included in expenses in the consolidated statement of functional expenses.

NOTE 9 - DUE TO RELATED PARTIES:

The following is a summary of amounts due to related parties at July 31, 2017:

National Fire Safety Council	$ 328,161
National Drug and Safety League	78,708
Harley Kaufman (President)	12,747
Total due to related parties	$ 419,616

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.

Upon his death, Founder Emeritus Howard R. Wilkinson's loan to the organization was forgiven. The income recognized for the year ended July 31, 2017 as a result of the debt being forgiven was $31,957 and is recorded as other income in the consolidated statement of activities.

NOTE 10 - 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 mortgage was paid in full during the fiscal year and the balance as of July 31, 2017 is $0.

Interest expense accrued and paid on all borrowings was $10,090 for the year ended July 31, 2017.

NOTE 11 - OTHER INCOME

During January 2017, the Organization became the beneficiary of a life insurance policy. Proceeds from the life insurance policy totaling $375,000 were received during the year and have been recognized as income. The proceeds were recorded as other income in the consolidated statement of activities.

NOTE 12 - 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, 2017, totaled $1,183,839 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, 2017:

Program services	$ 1,065,455
Fundraising	118,384
Total	$ 1,183,839