

GLOBAL KIDS, INC.

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2015 AND 2014

GLOBAL KIDS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Global Kids, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Global Kids, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 Organization'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 Organization'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 Global Kids, Inc. as of June 30, 2015 and 2014, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
January 25, 2016

GLOBAL KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

| ASSETS | 2015 | 2014 |
|---------------------------------------|----------------------------|----------------------------|
| Cash and cash equivalents | \$ 749,603 | \$ 809,653 |
| Restricted cash | 153,320 | 173,316 |
| Receivables | 1,093,501 | 1,291,892 |
| Prepaid expenses and other assets | 68,184 | 42,631 |
| Security deposits | 55,588 | 55,238 |
| Property and equipment, net | <u>118,966</u> | <u>172,982</u> |
| TOTAL ASSETS | <u>\$ 2,239,162</u> | <u>\$ 2,545,712</u> |
| | | |
| LIABILITIES AND NET ASSETS | | |
| <hr/> | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 258,740 | \$ 258,368 |
| Deferred rent | <u>67,491</u> | <u>111,048</u> |
| TOTAL LIABILITIES | <u>326,231</u> | <u>369,416</u> |
| | | |
| COMMITMENTS (Note 9) | | |
| | | |
| NET ASSETS | | |
| Unrestricted | 1,388,193 | 1,365,960 |
| Temporarily restricted | <u>524,738</u> | <u>810,336</u> |
| TOTAL NET ASSETS | <u>1,912,931</u> | <u>2,176,296</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,239,162</u> | <u>\$ 2,545,712</u> |

The accompanying notes are an integral part of these financial statements.

GLOBAL KIDS, INC.STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|---------------------------|---------------------|
| REVENUE AND SUPPORT | | | |
| Grants and contributions | \$ 2,495,718 | \$ 456,209 | \$ 2,951,927 |
| Training and technical assistance fees | 948,409 | - | 948,409 |
| Special event, net of direct expenses of \$23,243 | 296,898 | - | 296,898 |
| Interest and dividends | 44 | - | 44 |
| Rental income | 10,623 | - | 10,623 |
| Other income | 6,963 | - | 6,963 |
| Net assets released from restrictions | 741,807 | (741,807) | - |
| TOTAL REVENUE AND SUPPORT | 4,500,462 | (285,598) | 4,214,864 |
| EXPENSES | | | |
| PROGRAM SERVICES | | | |
| School Based Youth Development | 2,266,106 | - | 2,266,106 |
| School Based WIA - Year 6 | 228,909 | - | 228,909 |
| School Based WIA - Year 5 | 28,539 | - | 28,539 |
| School Based WIA - Year 4 | 10,135 | - | 10,135 |
| Leadership and Peer Education | 385,447 | - | 385,447 |
| High School for Global Citizenship | 171,979 | - | 171,979 |
| Online Leadership Program | 290,589 | - | 290,589 |
| Global DC | 207,977 | - | 207,977 |
| Other Programs | 151,431 | - | 151,431 |
| | 3,741,112 | - | 3,741,112 |
| SUPPORTING SERVICES | | | |
| Management and administration | 574,907 | - | 574,907 |
| Fundraising | 162,210 | - | 162,210 |
| TOTAL EXPENSES | 4,478,229 | - | 4,478,229 |
| CHANGE IN NET ASSETS | 22,233 | (285,598) | (263,365) |
| NET ASSETS - BEGINNING OF YEAR | 1,365,960 | 810,336 | 2,176,296 |
| NET ASSETS - END OF YEAR | \$ 1,388,193 | \$ 524,738 | \$ 1,912,931 |

The accompanying notes are an integral part of these financial statements.

GLOBAL KIDS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|---------------------------|---------------------|
| REVENUE AND SUPPORT | | | |
| Grants and contributions | \$ 1,309,053 | \$ 1,309,119 | \$ 2,618,172 |
| Training and technical assistance fees | 1,301,728 | - | 1,301,728 |
| Special event, net of direct expenses of \$19,829 | 449,395 | - | 449,395 |
| Interest and dividends | 19,696 | - | 19,696 |
| Rental income | 7,754 | - | 7,754 |
| Other income | 18,129 | - | 18,129 |
| Net assets released from restrictions | 835,372 | (835,372) | - |
| TOTAL REVENUE AND SUPPORT | 3,941,127 | 473,747 | 4,414,874 |
| EXPENSES | | | |
| PROGRAM SERVICES | | | |
| School Based Youth Development | 1,518,418 | - | 1,518,418 |
| School Based WIA - Year 5 | 243,042 | - | 243,042 |
| School Based WIA - Year 4 | 48,019 | - | 48,019 |
| School Based WIA - Year 3 | 1,764 | - | 1,764 |
| Leadership and Peer Education | 446,273 | - | 446,273 |
| High School for Global Citizenship | 285,054 | - | 285,054 |
| Online Leadership Program | 250,374 | - | 250,374 |
| Global DC | 264,324 | - | 264,324 |
| Other Programs | 185,729 | - | 185,729 |
| | 3,242,997 | - | 3,242,997 |
| SUPPORTING SERVICES | | | |
| Management and administration | 583,117 | - | 583,117 |
| Fundraising | 173,779 | - | 173,779 |
| TOTAL EXPENSES | 3,999,893 | - | 3,999,893 |
| CHANGE IN NET ASSETS | (58,766) | 473,747 | 414,981 |
| NET ASSETS - BEGINNING OF YEAR | 1,424,726 | 336,589 | 1,761,315 |
| NET ASSETS - END OF YEAR | \$ 1,365,960 | \$ 810,336 | \$ 2,176,296 |

The accompanying notes are an integral part of these financial statements.

GLOBAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

| | PROGRAM SERVICES | | | | | | | | | | SUPPORTING SERVICES | | |
|---|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------------|------------------------------------|---------------------------|-------------------|-------------------|------------------------|-------------------------------------|-------------------|---------------------|
| | School Based Youth Development | School Based WIA Year 6 | School Based WIA Year 5 | School Based WIA Year 4 | Leadership and Peer Education | High School for Global Citizenship | Online Leadership Program | Global DC | Other Programs | Total Program Services | (M&A) Management and Administration | Fundraising | Total |
| Salaries and benefits | \$ 1,804,173 | \$ 198,575 | \$ 28,589 | \$ 10,119 | \$ 202,206 | \$ 131,988 | \$ 234,307 | \$ 145,747 | \$ 107,976 | \$ 2,863,560 | \$ 281,935 | \$ 154,852 | \$ 3,309,447 |
| Rent and occupancy | 50,404 | - | - | - | 50,404 | 25,202 | 37,803 | 10,877 | - | 174,090 | 135,504 | - | 310,194 |
| Printing | 15,674 | - | - | - | 1,184 | 129 | 1,772 | 385 | - | 19,144 | 2,275 | 2,774 | 24,193 |
| Travel | 34,996 | - | (16) | 16 | 27,022 | 758 | 2,931 | 30,729 | 25,976 | 126,387 | 129 | 183 | 128,899 |
| Postage | 2,809 | 4 | - | - | 443 | 262 | - | 96 | 38 | 3,652 | 1,109 | 2,199 | 6,960 |
| Food | 31,580 | 2,283 | (447) | - | 9,395 | 2,291 | 1,352 | 2,882 | 5,735 | 55,071 | 432 | 42 | 55,545 |
| Supplies | 27,043 | - | - | - | 4,053 | 1,361 | 220 | 1,481 | - | 34,158 | 3,016 | 154 | 37,328 |
| Consultants and professional fees | 130,581 | 17,000 | - | - | 28,033 | - | - | 8,500 | 7,343 | 191,457 | 73,773 | - | 265,230 |
| Repairs and maintenance | 9,140 | - | - | - | 1,369 | 612 | 1,032 | 296 | 540 | 12,989 | 1,327 | - | 14,316 |
| Telephone and utilities | 2,751 | - | - | - | 1,026 | - | 4,000 | 450 | - | 8,227 | 16,194 | - | 24,421 |
| Equipment rental | 25,019 | - | - | - | 11 | - | 740 | - | 16 | 25,786 | 368 | - | 26,154 |
| Student stipend and incentives | 72,937 | 1,001 | 205 | - | 47,560 | 5,781 | 50 | 688 | 1,100 | 129,322 | - | - | 129,322 |
| Insurance | 8,903 | 900 | - | - | 1,505 | 673 | 1,135 | 812 | - | 13,928 | 3,631 | - | 17,569 |
| Depreciation and amortization | 34,419 | - | - | - | 5,820 | 2,602 | 4,388 | 3,152 | 2,296 | 52,677 | 9,116 | - | 61,793 |
| Miscellaneous | 15,677 | 4,971 | 208 | - | 5,416 | 340 | 859 | 1,882 | 411 | 29,764 | 46,098 | 2,006 | 77,868 |
| Total expenses before M&A allocation | \$ 2,266,106 | \$ 228,909 | \$ 28,539 | \$ 10,135 | \$ 385,447 | \$ 171,979 | \$ 290,589 | \$ 207,977 | \$ 151,431 | \$ 3,741,112 | \$ 574,907 | \$ 162,210 | \$ 4,476,229 |
| M&A allocation | 349,376 | 19,857 | 2,859 | 1,012 | 56,760 | 25,325 | 42,791 | 30,626 | 22,414 | 551,020 | (574,907) | 23,887 | - |
| Total Expenses | \$ 2,615,482 | \$ 248,766 | \$ 31,398 | \$ 11,147 | \$ 442,207 | \$ 197,304 | \$ 333,380 | \$ 238,603 | \$ 173,845 | \$ 4,292,132 | \$ - | \$ 186,097 | \$ 4,476,229 |

The accompanying notes are an integral part of these financial statements.

GLOBAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

| | PROGRAM SERVICES | | | | | | | | | | SUPPORTING SERVICES | | | Total |
|---|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------------|------------------------------------|---------------------------|-------------------|-------------------|------------------------|-------------------------------------|-------------------|---------------------|-------|
| | School Based Youth Development | School Based WIA Year 5 | School Based WIA Year 4 | School Based WIA Year 3 | Leadership and Peer Education | High School for Global Citizenship | Online Leadership Program | Global DC | Other Programs | Total Program Services | (M&A) Management and Administration | Fundraising | | |
| Salaries and benefits | \$ 1,252,328 | \$ 197,053 | \$ 43,794 | \$ 1,764 | \$ 204,207 | \$ 235,875 | \$ 189,569 | \$ 182,993 | \$ 87,245 | \$ 2,394,928 | \$ 330,127 | \$ 169,532 | \$ 2,894,487 | |
| Rent and occupancy | 85,393 | - | - | - | 17,079 | 31,777 | 24,398 | 9,125 | - | 167,712 | 115,726 | - | 283,438 | |
| Printing | 11,997 | 154 | - | - | 4,437 | 1,943 | - | 720 | 7,079 | 26,278 | 1,136 | 347 | 27,761 | |
| Travel | 13,997 | 9,658 | 2,172 | - | 90,243 | 1,040 | 2,525 | 19,663 | 599 | 139,897 | - | 70 | 139,967 | |
| Postage | 2,978 | 204 | - | - | 1,135 | - | 43 | 711 | 371 | 5,442 | 287 | - | 5,729 | |
| Food | 18,383 | 3,947 | 478 | - | 23,179 | 1,692 | 3,581 | 5,369 | 1,612 | 58,241 | - | 842 | 59,083 | |
| Supplies | 9,906 | - | 1,575 | - | 8,716 | 1,668 | 823 | 1,457 | 69 | 24,214 | 140 | - | 24,354 | |
| Consultants and professional fees | 52,246 | 17,000 | - | - | 24,654 | - | 14,913 | 36,250 | 81,368 | 226,431 | 80,609 | 957 | 307,997 | |
| Repairs and maintenance | 6,017 | - | - | - | 2,115 | 813 | 1,626 | 976 | - | 7,756 | 4,714 | - | 16,281 | |
| Telephone and utilities | 3,300 | - | - | - | 1,736 | 1,000 | 100 | 753 | 867 | 11,724 | 13,400 | - | 21,156 | |
| Equipment rental | 2,481 | 4,890 | - | - | 1,732 | - | 1,089 | 1,232 | 300 | 11,724 | 25 | - | 11,749 | |
| Student stipend and incentives | 22,343 | 1,305 | - | - | 52,896 | 5,426 | 5,000 | 400 | - | 87,370 | - | - | 87,370 | |
| Insurance | 3,982 | 900 | - | - | - | 422 | - | - | - | 5,304 | - | - | 11,275 | |
| Depreciation and amortization | 23,392 | - | - | - | 8,220 | 3,161 | 6,322 | 3,793 | 2,529 | 47,417 | 15,803 | - | 63,220 | |
| Miscellaneous | 9,727 | 7,931 | - | - | 5,924 | 297 | 385 | 882 | 3,690 | 28,838 | 15,179 | 2,031 | 46,046 | |
| Total expenses before M&A allocation | \$ 1,518,418 | \$ 243,042 | \$ 48,019 | \$ 1,764 | \$ 446,273 | \$ 285,054 | \$ 250,374 | \$ 264,324 | \$ 185,729 | \$ 3,242,997 | \$ 583,117 | \$ 173,779 | \$ 3,999,893 | |
| M&A allocation | 271,636 | 19,705 | 4,379 | 175 | 79,836 | 50,995 | 44,790 | 47,286 | 33,226 | 552,029 | (583,117) | 31,088 | - | |
| Total Expenses | \$ 1,790,054 | \$ 262,747 | \$ 52,398 | \$ 1,939 | \$ 526,109 | \$ 336,049 | \$ 295,164 | \$ 311,610 | \$ 218,955 | \$ 3,795,026 | \$ - | \$ 204,867 | \$ 3,999,893 | |

GLOBAL KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (263,365) | \$ 414,981 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 61,793 | 63,220 |
| Changes in operating assets and liabilities: | | |
| Receivables | 198,391 | (715,842) |
| Prepaid expenses and other assets | (25,553) | (14,746) |
| Security deposits | (350) | (150) |
| Accounts payable and accrued expenses | 372 | (45,961) |
| Deferred rent | (43,557) | (5,981) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(72,269)</u> | <u>(304,479)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Restricted cash - reserve for scholarships | 19,996 | 14,983 |
| Purchase of property and equipment | <u>(7,777)</u> | <u>-</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>12,219</u> | <u>14,983</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (60,050) | (289,496) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>809,653</u> | <u>1,099,149</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 749,603</u> | <u>\$ 809,653</u> |

The accompanying notes are an integral part of these financial statements.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

1. ORGANIZATION

Global Kids, Inc. (the "Organization") is a New York City ("NYC")-based non-profit educational organization. Its mission is to develop youth leaders for the global stage through dynamic global education and leadership development programs. Global Kids inspires underserved youth to achieve academic excellence, self-actualization and global competency, and empowers them to take action on critical issues facing their communities and our world. The Organization receives its support and income primarily from government grants, fees for service, and public contributions.

The Organization's mission is fulfilled through school-based, after school, summer learning, and online programs that build on young people's interests in world issues and cultures and develops critical thinking, leadership, communication, collaborative problem solving, and conflict resolution skills. Annually, the Organization works closely with numerous schools throughout NYC and beyond, providing workshops, guest speakers, an educational theatre program, field trips, and opportunities to learn from leading experts in the field of international affairs. In the summer of 2005, it launched the U.S in the World initiative, a summer institute and peer education program developed and implemented in partnership with the Council on Foreign Relations, and this has continued each summer. Management estimates that consistently each year approximately 97% of seniors in our after school programs graduate from high school, and 91% of those students move on to higher education.

The Organization is the lead agency and primary partner in a Brooklyn-based public school, The High School for Global Citizenship, which opened its doors to 100 students in September 2004. In 2008, the Organization authored Teen Action, a widely hailed service learning curriculum now being used at scores of after-school program sites across NYC. The Organization's Online Leadership Program, now in its twelfth year, equips youth with the skills necessary to use the Internet as a tool for research and social change and develops online resources for educators and young people to promote civic engagement and global literacy. The Organization's online program participants include people from around the world; the media they produce reach hundreds of thousands of others through the Organization and scores of other online websites. In addition to the programs described above, the Organization provides special training for educators, librarians, and youth workers. These focus on youth development, interactive experiential teaching methods, service learning, games and learning, the use of virtual worlds for educational purposes, and techniques for infusing international issues and world cultures into programming for young people. Special training for students emphasizes leadership and communications skills, bias and violence prevention, and critical issues in international and domestic affairs.

Led by both the Organization's staff members and the Organization's youth leaders, management estimates that the Organization's programs reached approximately 12,000 youth and educators in the years ended June 30, 2015 and 2014, mostly in NYC, but also at the Organization's new program site in Washington, D.C., and other locations in the U.S. and abroad. In addition, management estimates that approximately 500,000 more were reached through youth-produced educational games, videos, blogs, social networks/media, and other projects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the Organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - unrestricted, temporarily restricted, and permanently restricted - be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities and changes in net assets.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

These classifications are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, the amounts involved are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets.

Unrestricted - Net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents.

Restricted Cash

Restricted cash consists of the Foundation 17 Scholarship Fund that was provided for the purpose of funding scholarships to selected needy college-bound students in the amount of approximately \$5,000 per student per year. This fund is held in a separate money market account and income generated thereof is to be used for the same intent as the fund. Restricted cash as of June 30, 2015 and 2014 was \$153,320 and \$173,316, respectively.

Revenue Recognition

Grants are recognized as revenue when allowable expenses are incurred. Contributions are recognized when received or when an unconditional promise is received. Fees for services are recognized as income when earned.

Contributions received are classified depending on the existence or nature of any donor restrictions. All revenue and support are considered to be available for unrestricted use unless specifically designated for expenditure in the following year or if restricted by the donor for a particular program or project. The Organization releases restricted support to the extent expenditures have been incurred for the purposes for which restricted support has been granted.

Receivables

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give are not included as support until the conditions are substantially met.

Receivables, which consist of fees for services, grants and contributions receivable, have been adjusted for all known uncollectible accounts. Management reviews the accounts receivable to determine if an allowance is necessary. The allowance is based on historical experience and management's analysis of the current status of amounts receivable. As of June 30, 2015 and 2014, no allowance was necessary because the receivable balance was determined to be fully collectable. All receivables at June 30, 2015 and 2014 are due in less than one year.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the underlying lease. It is the Organization's policy to capitalize property and equipment in excess of \$5,000. Expenditures for repairs and maintenance are expensed as incurred.

The costs of furniture and equipment that are reimbursed by government funding agencies are not capitalized in accordance with the reversionary interest terms in their respective agreements. Accordingly, title to such assets remains in the name of the reimbursing agency.

Impairment

The Organization reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Organization recognizes an impairment loss. No impairment loss was recognized for the years ended June 30, 2015 and 2014.

Deferred Rent

The Organization leases program and office space whereby the landlord provided periods of scheduled increases to the minimum amounts charged. Rent expense related to the minimum rentals is recognized on a straight-line basis over the term of the lease. The accompanying statements of financial position reflect a deferred rent liability of \$67,491 and \$111,048 at June 30, 2015 and 2014, respectively.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Management and administration expenses were allocated to the individual program services and fundraising expenses on the statement of functional expenses for the years ended June 30, 2015 and 2014.

Special Events

The Organization conducts an annual gala, which is a special event in which a portion of gross proceeds paid by the participants represents payments for direct costs of the benefits received by the participants at the event. Unless a verifiable, objective means exists to demonstrate the fair value, meals and entertainment provided at special events are measured at the actual cost to the Organization. All proceeds received in excess of the direct costs are recorded as special events support in the accompanying statements of activities and changes in net assets. For the years ended June 30, 2015 and 2014, the Organization reported special events support of \$320,141 and \$469,224, respectively, with direct expenses of \$23,243 and \$19,829, respectively.

Income Taxes

The Organization, as determined by the Internal Revenue Service, was granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code ("IRC") and has been held to be a publicly supported organization, and not a private foundation under Section 509(a) of the IRC. Under the provision, the Organization is exempt from federal income taxes and is also exempt from New York State and New York City income taxes.

The Organization follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for de-recognition, classification, interest and penalties, disclosure, and transition.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

The Organization is subject to audit by tax authorities. In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. Management believes that its tax-exempt status would be sustained upon examination. Management believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. If applicable, the Organization would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Organization files income tax returns in the federal and New York State jurisdictions. With few exceptions, the Organization is no longer subject to federal or state income tax examinations for fiscal years ended before June 30, 2012.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated events through January 25, 2016, which is the date the financial statements were available to be issued.

Reclassification

Certain accounts relating to the prior year have been reclassified to conform to the current fiscal year's presentation. These reclassifications have no effect on the change in net assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The Organization is currently evaluating the effect the update will have on its financial statements.

3. RECEIVABLES

Accounts receivable are summarized as follows:

| June 30, | 2015 | 2014 |
|--------------------------|---------------------|---------------------|
| Fee income | \$ 488,955 | \$ 521,830 |
| Grants and contributions | 604,546 | 770,062 |
| | <u>\$ 1,093,501</u> | <u>\$ 1,291,892</u> |

GLOBAL KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| June 30, | 2015 | 2014 | Estimated Useful Life |
|---|-------------------|-------------------|-----------------------|
| Furniture and equipment | \$ 278,341 | \$ 270,564 | 7 years |
| Leasehold improvements | 586,720 | 586,720 | Life of lease |
| | 865,061 | 857,284 | |
| Less: accumulated depreciation and amortization | (746,095) | (684,302) | |
| | <u>\$ 118,966</u> | <u>\$ 172,982</u> | |

Depreciation and amortization expense totaled \$61,793 and \$63,220 for the years ended June 30, 2015 and 2014, respectively.

5. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Approximately 75% of the Organization's receivables as of June 30, 2015 were derived from three grantors. Approximately 50% of the Organization's receivables as of June 30, 2014 were derived from two grantors.

Approximately 65% of the Organization's grants and contributions revenue for the year ended June 30, 2015 was derived from one grantor. Approximately 48% of the Organization's grants and contributions revenue for the year ended June 30, 2014 were derived from two grantors.

Approximately 85% of the Organization's training and technical assistance fees revenue for the year ended June 30, 2015 was derived from three organizations. Approximately 73% of the Organization's training and technical assistance fees revenue for the year ended June 30, 2014 was derived from one organization.

Two vendors constituted 61% of the Organization's payables at June 30, 2015. One vendor constituted 50% of payables at June 30, 2014.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are purpose and time restricted, and consist of the following balances at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Purpose Restricted: | | |
| School Based Youth Development | \$ 166,141 | \$ 402,567 |
| Leadership and Peer Education | 270,710 | 265,316 |
| Online Leadership Program | 48,100 | 125,000 |
| Global DC | 39,787 | 17,453 |
| Total Temporarily Restricted Net Assets | <u>\$ 524,738</u> | <u>\$ 810,336</u> |

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

6. TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from restrictions by satisfying the restricted purposes for the years ended June 30, 2015 and 2014, as follows:

| | 2015 | 2014 |
|----------------------------------|-------------------|-------------------|
| Purpose Restricted: | | |
| School Based Youth Development | \$ 310,426 | \$ 336,032 |
| Leadership and Peer Education | 218,606 | 197,293 |
| Online Leadership Program | 125,000 | 80,000 |
| Global DC | 62,775 | 199,547 |
| Other Program | 25,000 | 22,500 |
| Total Releases from Restrictions | <u>\$ 741,807</u> | <u>\$ 835,372</u> |

7. EMPLOYEES' PENSION PLAN

The Organization maintains a defined contribution 403(b) plan for all eligible employees, as defined, which is funded entirely at the discretion of the Organization. All full-time employees with one year of service are eligible to participate in the plan. There was no discretionary contribution made for the year ended June 30, 2015. The discretionary contribution for the year ended June 30, 2014 amounted to \$70,620, and is included in salaries and benefits in the accompanying statements of functional expenses.

8. LINE OF CREDIT

The Organization has a line of credit agreement with a financial institution to access a maximum of \$500,000, with interest at the prime rate, as defined, which would provide short-term working capital. The line was renewed in April 2015, with an interest rate of 5.25% as of June 30, 2015, and expires in April 2016.

There were no amounts outstanding at June 30, 2015 and 2014, respectively.

9. COMMITMENTS

Lease Commitments

The Organization is obligated under a lease agreement for office space in NYC which commenced April 1, 2007 and expires April 30, 2017. Future minimum rental payments under this operating lease are as follows:

| Year Ended June 30, | | |
|------------------------|----|----------------|
| 2016 | \$ | 285,867 |
| 2017 | | <u>243,657</u> |
| | \$ | <u>529,524</u> |

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

9. COMMITMENTS (CONTINUED)

The Organization also leases space in Washington, D.C. at \$850 per month. The lease expired on September 30, 2015. The Organization is currently leasing the space on a month-to-month basis.

Rent expense was \$264,692 and \$262,940 for the years ended June 30, 2015 and 2014, respectively. In addition, as part of the NYC office lease, the Organization is responsible to pay real estate taxes in excess of the base year, as defined in the lease agreement.

The Organization is obligated under a lease agreement for office equipment in NYC which commenced March 18, 2011 and expires March 18, 2016. Future minimum rental payments under this operating lease is \$7,353 through the expiration date.

Pursuant to the Organization's contractual relationships with certain funding sources, outside agencies have the right to examine the Organization's books and records which pertain to transactions relating to these contracts. The financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual additional disallowances, if any, would be immaterial.

SUPPLEMENTARY INFORMATION

GLOBAL KIDS, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor/Pass-through Grantor/Program</u> | <u>Federal CFDA Number</u> | <u>Pass-through entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| <u>U.S. Department of Labor</u> | | | |
| Passed-through from New York City Department of Youth and Community Development | | | |
| WIA Youth Activities | 17.259 | N/A | \$ 291,311 |
| <u>U.S. Department of State</u> | | | |
| American Youth Leadership Program with Bosnia and Herzegovina | 19.415 | N/A | 98,019 |
| <u>National Science Foundation</u> | | | |
| Passed-through from Hofstra University | | | |
| iDesign: Developing Technological Fluency Through Culturally-Relevant Game Design | 47.076 | N/A | 142,516 |
| Total Expenditures of Federal Awards | | | <u>\$ 531,846</u> |

See independent auditor's report.
 The accompanying notes are an integral part of this schedule.

GLOBAL KIDS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2015

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Global Kids, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of the Organization, it is not intended and does not present the financial position, changes in net assets or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available and when applicable.

3. SUB-RECIPIENTS

Of the federal expenditures presented in the schedule, the Organization provided no federal awards to sub-recipients.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Directors
Global Kids, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Global Kids, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter as of December 31, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
January 25, 2016



Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Global Kids, Inc.

Report on Compliance for the Major Federal Program

We have audited Global Kids, Inc.'s (the "Organization") compliance with the types of compliance requirements described in *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2015. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Major Federal Program

In our opinion, Global Kids, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Global Kids, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
January 25, 2016

GLOBAL KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

Section I – Summary of Auditor’s results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

 Material weakness identified? Yes √ No

 Significant deficiency identified that is not considered
 to be material weaknesses? Yes √ None reported

Noncompliance material to financial statements noted? Yes √ No

Federal Awards

Internal control over major programs:

 Material weakness identified? Yes √ No

 Significant deficiency identified that is not considered
 to be material weaknesses? Yes √ None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in
accordance with section 510(a) of OMB Circular A-133? Yes √ No

Identification of major programs:

| <u>Name of Federal Program</u> | <u>CFDA Number</u> | <u>Expenditures</u> |
|---|-------------------------------|-----------------------------------|
| WIA Youth Activities | 17.259 | \$291,311 |
| Dollar threshold used to distinguish between Type A and Type B programs: | | <u>\$300,000</u> |
| Auditee qualified as low-risk auditee? | | <u> </u> Yes <u> √ </u> No |

GLOBAL KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

Section II - Financial Statement Findings:

None noted.

Section III - Federal Award Findings and Questioned Costs:

None noted.