

**GLOBAL KIDS, INC.**

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FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2016 AND 2015

**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, 2016 and 2015, 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. 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, 2016 and 2015, 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.

**MBAF CPAs, LLC**

New York, NY  
January 24, 2017

**GLOBAL KIDS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 450,314	\$ 749,603
Restricted cash	133,320	153,320
Receivables	1,676,270	1,093,501
Prepaid expenses and other assets	31,864	68,184
Security deposits	55,588	55,588
Property and equipment, net	<u>57,340</u>	<u>118,966</u>
TOTAL ASSETS	<b><u>\$ 2,404,696</u></b>	<b><u>\$ 2,239,162</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 411,412	\$ 258,740
Line of credit payable	50,000	-
Deferred rent	<u>33,642</u>	<u>67,491</u>
TOTAL LIABILITIES	<u>495,054</u>	<u>326,231</u>
<b>COMMITMENTS (Note 9)</b>		
<b>NET ASSETS</b>		
Unrestricted	1,472,476	1,388,193
Temporarily restricted	<u>437,166</u>	<u>524,738</u>
TOTAL NET ASSETS	<u>1,909,642</u>	<u>1,912,931</u>
TOTAL LIABILITIES AND NET ASSETS	<b><u>\$ 2,404,696</u></b>	<b><u>\$ 2,239,162</u></b>

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, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Grants and contributions	\$ 3,589,027	\$ 567,004	\$ 4,156,031
Training and technical assistance fees	1,357,621	-	1,357,621
Special event, net of direct expenses of \$30,283	259,710	-	259,710
Interest and dividends	244	-	244
Rental income	20,454	-	20,454
Other income	21	-	21
Net assets released from restrictions	654,576	(654,576)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>5,881,653</b>	<b>(87,572)</b>	<b>5,794,081</b>
<b>EXPENSES</b>			
<b>PROGRAM SERVICES</b>			
School Based Youth Development	3,169,352	-	3,169,352
School Based WIA - Year 7	226,860	-	226,860
School Based WIA - Year 6	37,817	-	37,817
School Based WIA - Year 5	1,023	-	1,023
Leadership and Peer Education	392,198	-	392,198
High School for Global Citizenship	232,672	-	232,672
Online Leadership Program	323,437	-	323,437
Global DC	381,003	-	381,003
Other Programs	158,380	-	158,380
	4,922,742	-	4,922,742
<b>SUPPORTING SERVICES</b>			
Management and administration	650,836	-	650,836
Fundraising	223,792	-	223,792
<b>TOTAL EXPENSES</b>	<b>5,797,370</b>	<b>-</b>	<b>5,797,370</b>
<b>CHANGE IN NET ASSETS</b>	<b>84,283</b>	<b>(87,572)</b>	<b>(3,289)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>1,388,193</b>	<b>524,738</b>	<b>1,912,931</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,472,476</b>	<b>\$ 437,166</b>	<b>\$ 1,909,642</b>

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
<b>REVENUE AND SUPPORT</b>			
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)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>4,500,462</b>	<b>(285,598)</b>	<b>4,214,864</b>
<b>EXPENSES</b>			
<b>PROGRAM SERVICES</b>			
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
<b>SUPPORTING SERVICES</b>			
Management and administration	574,907	-	574,907
Fundraising	162,210	-	162,210
<b>TOTAL EXPENSES</b>	<b>4,478,229</b>	<b>-</b>	<b>4,478,229</b>
<b>CHANGE IN NET ASSETS</b>	<b>22,233</b>	<b>(285,598)</b>	<b>(263,365)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>1,365,960</b>	<b>810,336</b>	<b>2,176,296</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,388,193</b>	<b>\$ 524,738</b>	<b>\$ 1,912,931</b>

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

**GLOBAL KIDS, INC.**  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016

	PROGRAM SERVICES										SUPPORTING SERVICES		
	School Based Youth Development	School Based WIA Year 7	School Based WIA Year 6	School Based WIA Year 5	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	\$ 2,393,392	\$ 203,933	\$ 36,109	\$ 1,023	\$ 191,910	\$ 184,357	\$ 262,737	\$ 197,289	\$ 152,175	\$ 3,622,935	\$ 349,394	\$ 213,042	\$ 4,185,371
Rent and occupancy	50,239	-	-	-	46,374	22,537	30,049	11,100	-	160,399	154,592	-	314,891
Printing	11,314	-	-	-	1,100	550	3,413	1,315	-	17,692	879	1,970	20,541
Travel	56,407	-	781	-	63,354	631	4,606	128,206	5,607	280,791	18	315	261,124
Postage	2,767	-	-	-	252	128	33	20	-	3,200	427	2,876	6,503
Food	37,984	-	-	-	17,881	3,561	1,569	3,642	84	65,721	24	41	65,786
Supplies	10,545	1,000	-	-	3,448	1,902	3,802	1,612	-	21,309	2,847	-	24,156
Consultants and professional fees	355,777	17,000	-	-	2,908	-	476	17,500	-	391,279	92,404	-	483,683
Repairs and maintenance	2,908	-	-	-	2,908	-	2,908	169	-	8,893	6,741	-	15,634
Telephone and utilities	4,950	-	-	-	4,070	550	1,600	2,850	-	14,020	9,535	-	23,555
Equipment rental	34,632	-	-	-	40,358	1,417	1,132	4,569	-	41,750	4,479	-	46,229
Student stipend and incentives	72,141	1,500	-	-	816	5,906	463	151	250	120,769	-	-	120,769
Insurance	12,976	900	-	-	5,800	2,600	900	3,600	-	19,392	2,721	-	22,113
Depreciation and amortization	36,500	-	-	-	5,800	2,600	4,300	3,150	-	52,350	9,276	-	61,626
Miscellaneous	86,820	1,328	927	-	13,401	8,333	5,449	5,820	264	122,342	17,499	5,548	145,389
<b>Total expenses before M&amp;A allocation</b>	<b>3,169,392</b>	<b>226,860</b>	<b>37,817</b>	<b>1,023</b>	<b>392,198</b>	<b>232,672</b>	<b>323,437</b>	<b>391,003</b>	<b>159,380</b>	<b>4,922,742</b>	<b>650,836</b>	<b>223,792</b>	<b>5,797,370</b>
M&A allocation	437,141	20,393	3,611	107	49,506	30,944	40,827	48,093	20,214	650,836	(650,836)	-	-
<b>Total Expenses</b>	<b>\$ 3,606,493</b>	<b>\$ 247,253</b>	<b>\$ 41,428</b>	<b>\$ 1,130</b>	<b>\$ 441,704</b>	<b>\$ 263,616</b>	<b>\$ 364,264</b>	<b>\$ 429,096</b>	<b>\$ 179,594</b>	<b>\$ 5,573,578</b>	<b>\$ -</b>	<b>\$ 223,792</b>	<b>\$ 5,797,370</b>

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	\$ 131,968	\$ 234,307	\$ 145,747	\$ 107,976	\$ 2,863,560	\$ 281,935	\$ 154,852	\$ 3,309,447
Rent and occupancy	50,404	-	-	-	30,404	23,202	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	4,175	(16)	16	27,022	758	2,931	30,729	25,976	126,387	129	183	128,899
Postage	2,809	4	(447)	-	443	262	-	96	38	3,652	1,109	2,199	6,960
Food	31,580	2,283	-	-	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	-	740	450	-	8,227	16,194	-	24,421
Equipment rental	25,019	-	-	-	11	-	-	-	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	-	17,559
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	1,852	411	29,764	46,098	2,006	77,868
<b>Total expenses before M&amp;A allocation</b>	<b>2,266,106</b>	<b>228,909</b>	<b>28,539</b>	<b>10,135</b>	<b>385,447</b>	<b>171,979</b>	<b>290,589</b>	<b>207,977</b>	<b>151,431</b>	<b>3,741,112</b>	<b>574,907</b>	<b>162,210</b>	<b>4,478,229</b>
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	-
<b>Total Expenses</b>	<b>\$ 2,615,482</b>	<b>\$ 248,766</b>	<b>\$ 31,398</b>	<b>\$ 11,147</b>	<b>\$ 442,207</b>	<b>\$ 197,304</b>	<b>\$ 333,380</b>	<b>\$ 238,603</b>	<b>\$ 173,845</b>	<b>\$ 4,292,132</b>	<b>\$ -</b>	<b>\$ 186,097</b>	<b>\$ 4,478,229</b>

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



**GLOBAL KIDS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (3,289)	\$ (263,365)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	61,626	61,793
Changes in operating assets and liabilities:		
Receivables	(582,769)	198,391
Prepaid expenses and other assets	36,320	(25,553)
Security deposits	-	(350)
Accounts payable and accrued expenses	152,672	372
Deferred rent	(33,849)	(43,557)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(369,289)</b>	<b>(72,269)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Restricted cash - reserve for scholarships	20,000	19,996
Purchase of property and equipment	-	(7,777)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>20,000</b>	<b>12,219</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	100,000	-
Payment of line of credit	(50,000)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>50,000</b>	<b>-</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(299,289)</b>	<b>(60,050)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>749,603</b>	<b>809,653</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 450,314</b>	<b>\$ 749,603</b>

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

## GLOBAL KIDS, INC.

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

#### 1. ORGANIZATION

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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, which has continued each summer. Management estimates that, consistently each year, approximately 97% of seniors in our after school programs graduate from high school, and 93% 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 fourteenth 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, 2016 and 2015, mostly in NYC, but also at the Organization's site in Washington, D.C., 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

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##### 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, 2016 AND 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### 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, 2016 and 2015 was \$133,320 and \$153,320, 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 a 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, 2016 and 2015, no allowance was necessary because the receivable balance was determined to be fully collectable. All receivables at June 30, 2016 and 2015 are due in less than one year.

## GLOBAL KIDS, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

## 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, 2016 and 2015.

### **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 \$33,642 and \$67,491 at June 30, 2016 and 2015, 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.

The increase in consultant costs is due to increased program contract revenue which required hiring of teaching artists, mental health service providers, and other direct service providers.

Management and administration expenses were allocated to the individual program services and fundraising expenses on the statements of functional expenses for the years ended June 30, 2016 and 2015.

### **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, 2016 and 2015, the Organization reported special events support of \$289,993 and \$320,141, respectively, with direct expenses of \$30,283 and \$23,243, 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, 2016 AND 2015

## 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, 2013.

### **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.

### **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 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Organization is currently evaluating the effect the update will have on its financial statements.

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The Organization is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standard update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The Organization is currently evaluating the effect the update will have on its financial statements.

**GLOBAL KIDS, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements (continued)**

In August 2016, the FASB issued an accounting standards update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The amendment requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendment is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendment should be applied using a retrospective transition method to each period presented. 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,	2016	2015
Fee income	\$ 399,455	\$ 488,955
Grants and contributions	<u>1,276,815</u>	<u>604,546</u>
	<u>\$ 1,676,270</u>	<u>\$ 1,093,501</u>

Accounts receivable as of June 30, 2016 increased as a result of increased funding from grant contracts.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

June 30,	2016	2015	Estimated Useful Life
Furniture and equipment	\$ 278,341	\$ 278,341	7 years
Leasehold improvements	<u>586,720</u>	<u>586,720</u>	Life of lease
	865,061	865,061	
Less: accumulated depreciation and amortization	<u>(807,721)</u>	<u>(746,095)</u>	
	<u>\$ 57,340</u>	<u>\$ 118,966</u>	

Depreciation and amortization expense totaled \$61,626 and \$61,793 for the years ended June 30, 2016 and 2015, respectively.

## GLOBAL KIDS, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

#### 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 33% of the Organization's receivables as of June 30, 2016 were derived from two grantors. Approximately 75% of the Organization's receivables as of June 30, 2015 were derived from three grantors.

Approximately 73% and 65% of the Organization's grants and contributions revenue for the years ended June 30, 2016 and 2015, respectively, was derived from one grantor.

Approximately 82% of the Organization's training and technical assistance fees revenue for the year ended June 30, 2016 was derived from two organizations. Approximately 85% of the Organization's training and technical assistance fees revenue for the year ended June 30, 2015 was derived from three organizations.

One vendor constituted 33% of the Organization's payables at June 30, 2016. Two vendors constituted 61% of payables at June 30, 2015.

#### 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are purpose and time restricted, and consist of the following balances at June 30, 2016 and 2015:

	2016	2015
Purpose Restricted:		
School Based Youth Development	\$ 29,846	\$ 166,141
Leadership and Peer Education	227,320	270,710
Online Leadership Program	100,000	48,100
Global DC	80,000	39,787
Total Temporarily Restricted Net Assets	<u>\$ 437,166</u>	<u>\$ 524,738</u>

Net assets were released from restrictions by satisfying the restricted purposes for the years ended June 30, 2016 and 2015, as follows:

	2016	2015
Purpose Restricted:		
School Based Youth Development	\$ 161,295	\$ 310,426
Leadership and Peer Education	350,394	218,606
Online Leadership Program	48,100	125,000
Global DC	69,787	62,775
Other Program	25,000	25,000
Total Releases from Restrictions	<u>\$ 654,576</u>	<u>\$ 741,807</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 years ended June 30, 2016 and 2015.

## GLOBAL KIDS, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

#### 8. LINE OF CREDIT

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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 2016, with an interest rate of 5.58% as of June 30, 2016, and expires in May 2017.

The line of credit balance outstanding at June 30, 2016 was \$50,000. There was no amount outstanding at June 30, 2015. The outstanding balance at June 30, 2016 was paid off in the subsequent period.

#### 9. COMMITMENTS

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##### 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 for the year ended June 30, 2017 is \$243,657.

The Organization also leases space in Washington, D.C. at \$950 per month, where the lease expired on September 30, 2016. The Organization is currently leasing the space on a month-to-month basis.

Rent expense was \$266,416 and \$264,692 for the years ended June 30, 2016 and 2015, 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 expired March 18, 2016. On April 20, 2016, the Organization renewed the lease agreement for office equipment, which calls for 60 monthly payments of \$1,660. Future minimum rental payments under this equipment lease are as follows:

Year Ended	
June 30,	
2017	\$ 19,920
2018	19,920
2019	19,920
2020	19,920
2021	16,600
	<hr/>
	\$ 96,280

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.

#### 10. SUBSEQUENT EVENTS

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The Organization has evaluated events through January 24, 2017, which is the date the financial statements were available to be issued.

In July 2016, the Organization increased its line of credit from \$500,000 to \$1,000,000 for potential future cash flow needs. There has not been any significant withdrawals from the line of credit as of the report date.