

GLOBAL KIDS, INC.

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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
February 7, 2018

GLOBAL KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
Cash and cash equivalents	\$ 517,164	\$ 450,314
Restricted cash	108,320	133,320
Receivables	1,692,899	1,676,270
Prepaid expenses and other assets	92,481	31,864
Security deposits	55,588	55,588
Property and equipment, net	<u>3,111</u>	<u>57,340</u>
TOTAL ASSETS	<u>\$ 2,469,563</u>	<u>\$ 2,404,696</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 392,830	\$ 411,412
Line of credit payable	200,000	50,000
Deferred rent	<u>71,429</u>	<u>33,642</u>
TOTAL LIABILITIES	<u>664,259</u>	<u>495,054</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS		
Unrestricted	1,568,484	1,472,476
Temporarily restricted	<u>236,820</u>	<u>437,166</u>
TOTAL NET ASSETS	<u>1,805,304</u>	<u>1,909,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,469,563</u>	<u>\$ 2,404,696</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, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grants and contributions	\$ 3,936,111	\$ 211,500	\$ 4,147,611
Training and technical assistance fees	1,232,615	-	1,232,615
Special event, net of direct expenses of \$16,925	176,680	-	176,680
Interest and dividends	176	-	176
Rental income	2,400	-	2,400
Other income	499	-	499
Net assets released from restrictions	411,846	(411,846)	-
	<u>5,760,327</u>	<u>(200,346)</u>	<u>5,559,981</u>
TOTAL REVENUE AND SUPPORT			
EXPENSES			
PROGRAM SERVICES			
School Based Youth Development	3,557,252	-	3,557,252
School Based WIA - Year 8	194,330	-	194,330
School Based WIA - Year 7	46,925	-	46,925
School Based WIA - Year 6	5,835	-	5,835
Leadership and Peer Education	214,122	-	214,122
Online Leadership Program	232,686	-	232,686
Global DC	371,881	-	371,881
Other Programs	221,427	-	221,427
	<u>4,844,458</u>	<u>-</u>	<u>4,844,458</u>
SUPPORTING SERVICES			
Management and administration	656,151	-	656,151
Fundraising	163,710	-	163,710
	<u>5,664,319</u>	<u>-</u>	<u>5,664,319</u>
TOTAL EXPENSES			
CHANGE IN NET ASSETS	96,008	(200,346)	(104,338)
NET ASSETS - BEGINNING OF YEAR	<u>1,472,476</u>	<u>437,166</u>	<u>1,909,642</u>
NET ASSETS - END OF YEAR	<u>\$ 1,568,484</u>	<u>\$ 236,820</u>	<u>\$ 1,805,304</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, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
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)	-
TOTAL REVENUE AND SUPPORT	5,881,653	(87,572)	5,794,081
EXPENSES			
PROGRAM SERVICES			
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
SUPPORTING SERVICES			
Management and administration	650,836	-	650,836
Fundraising	223,792	-	223,792
TOTAL EXPENSES	5,797,370	-	5,797,370
CHANGE IN NET ASSETS	84,283	(87,572)	(3,289)
NET ASSETS - BEGINNING OF YEAR	1,388,193	524,738	1,912,931
NET ASSETS - END OF YEAR	\$ 1,472,476	\$ 437,166	\$ 1,909,642

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

GLOBAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	PROGRAM SERVICES										SUPPORTING SERVICES		
	School Based Youth Development	School Based W/A Year 8	School Based W/A Year 7	School Based W/A Year 6	Leadership and Peer Education	Online Leadership Program	Global DC	Other Programs	Total Program Services	Management and Administration	Fundraising	Total	
Salaries and benefits	\$ 2,701,937	\$ 154,907	\$ 41,072	\$ 4,485	\$ 67,048	\$ 185,891	\$ 233,194	\$ 208,309	\$ 3,596,843	\$ 350,591	\$ 149,378	\$ 4,096,812	
Rent and occupancy	56,328	13,080	3,448	330	44,782	13,269	27,533	-	158,770	189,887	7,228	355,885	
Printing	16,289	1,003	264	25	452	1,296	1,548	2,743	23,630	1,172	706	25,508	
Travel	57,817	364	(737)	737	54,200	2,535	62,964	(571)	177,309	-	-	177,309	
Postage	3,077	-	-	-	128	17	472	-	3,694	358	1,035	5,087	
Food	52,053	1,101	-	-	6,508	2,868	8,348	31	70,909	-	-	70,909	
Supplies	38,451	1,381	650	144	757	1,436	12,246	-	55,065	-	651	55,716	
Consultants and professional fees	471,607	20,572	941	90	1,611	14,614	13,850	7,992	531,277	47,704	4,021	583,002	
Repairs and maintenance	10,722	613	162	15	277	792	947	1,678	15,206	2,423	432	18,061	
Telephone and utilities	14,405	368	97	9	621	799	2,118	1,095	19,512	429	259	20,200	
Equipment rental	10,119	-	442	-	-	2,380	1,301	-	14,242	-	-	14,242	
Student stipend and incentives	61,403	-	-	-	35,127	1,800	-	150	98,480	-	-	98,480	
Insurance	6,316	728	-	-	265	500	3,292	-	13,101	7,562	-	20,663	
Depreciation and amortization	34,652	-	-	-	962	2,795	-	-	38,369	15,860	-	54,229	
Miscellaneous	20,066	213	586	-	1,384	1,734	4,068	-	28,051	40,165	-	68,216	
Total expenses before M&A allocation	3,557,252	194,330	46,925	5,835	214,122	232,686	371,881	221,427	4,844,458	656,151	163,710	5,664,319	
M&A allocation	478,436	15,521	4,082	391	49,502	30,486	48,722	29,011	656,151	(656,151)	-	-	
Total Expenses	\$ 4,035,688	\$ 209,851	\$ 51,007	\$ 6,226	\$ 263,624	\$ 263,172	\$ 420,603	\$ 250,438	\$ 5,500,609	\$ -	\$ 163,710	\$ 5,664,319	

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			Total
	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		
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	-	160,299	154,592	-	314,891	
Printing	11,314	-	-	-	1,100	550	3,413	1,315	-	17,692	879	1,970	20,541	
Travel	56,407	1,199	781	-	63,354	631	4,606	128,206	5,607	260,791	18	315	261,124	
Postage	2,767	-	-	-	252	128	33	20	-	3,200	427	2,876	6,503	
Food	37,984	1,000	-	-	17,881	3,561	1,569	3,642	84	65,721	24	41	65,786	
Supplies	10,545	-	-	-	3,448	1,902	3,802	1,612	-	21,309	2,847	-	24,156	
Consultants and professional fees	355,777	17,000	-	-	526	-	476	17,500	-	391,279	92,404	-	483,683	
Repairs and maintenance	2,908	-	-	-	2,908	550	1,900	2,850	-	8,893	6,741	-	15,634	
Telephone and utilities	4,950	-	-	-	4,070	1,417	1,132	4,569	-	14,020	9,535	-	23,555	
Equipment rental	34,632	-	-	-	-	1,417	463	4,569	250	41,750	4,479	-	46,229	
Student stipend and incentives	72,141	1,500	-	-	40,358	5,006	900	151	-	120,769	-	-	120,769	
Insurance	12,976	900	-	-	816	200	900	3,600	-	19,382	2,721	-	22,113	
Depreciation and amortization	36,500	-	-	-	5,600	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	
Total expenses before M&A allocation	3,169,352	226,860	37,817	1,023	392,198	232,672	323,437	381,003	158,380	4,922,742	650,836	223,792	5,797,370	
M&A allocation	437,141	20,393	3,611	107	49,506	30,944	40,927	48,093	20,214	650,836	(650,836)	-	-	
Total Expenses	\$ 3,606,493	\$ 247,253	\$ 41,428	\$ 1,130	\$ 441,704	\$ 263,616	\$ 364,364	\$ 429,096	\$ 178,594	\$ 5,573,578	\$ -	\$ 223,792	\$ 5,797,370	

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

GLOBAL KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (104,338)	\$ (3,289)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	54,229	61,626
Changes in operating assets and liabilities:		
Receivables	(16,629)	(582,769)
Prepaid expenses and other assets	(60,617)	36,320
Accounts payable and accrued expenses	(18,582)	152,672
Deferred rent	37,787	(33,849)
NET CASH USED IN OPERATING ACTIVITIES	(108,150)	(369,289)
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash - reserve for scholarships	25,000	20,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,000	20,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	200,000	100,000
Payment of line of credit	(50,000)	(50,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	150,000	50,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	66,850	(299,289)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	450,314	749,603
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 517,164	\$ 450,314

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

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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/digital media 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 providing services in a Brooklyn-based public school, The High School for Global Citizenship, which opened its doors to 100 students in September 2004, and is also lead partner in six NYC Department of Education Community Schools. 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 Digital Learning and Leadership Program (formerly the Online Leadership Program), now in its fifteenth year, equips youth with the skills necessary to use technology, digital media, and the Internet as tools for social change and to promote civic engagement and global literacy through hands-on projects. The Organization's digital learning 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 digital platforms. 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, digital media creation 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, 2017 and 2016, 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

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, 2017 AND 2016

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, 2017 and 2016 was \$108,320 and \$133,320, 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, 2017 and 2016, no allowance was necessary because the receivable balance was determined to be fully collectable. All receivables at June 30, 2017 and 2016 are due in less than one year.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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. 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, 2017 and 2016.

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 \$71,429 and \$33,642 at June 30, 2017 and 2016, 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 on the statements of functional expenses for the years ended June 30, 2017 and 2016.

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, 2017 and 2016, the Organization reported special events support of \$193,605 and \$289,993, respectively, with direct expenses of \$16,925 and \$30,283, respectively.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2014.

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 standards 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 standards 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 Organization is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the Organization's financial condition due to the recognition of a right-of-use asset and related lease liability. The Organization does not anticipate the update having a material effect on the Organization's results of operations or cash flows, though such an effect is possible. 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.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In August 2016, the FASB issued an accounting standards 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.

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,	2017	2016
Grants and contributions	\$ 1,277,112	\$ 1,276,815
Fee income	415,787	399,455
	<u>\$ 1,692,899</u>	<u>\$ 1,676,270</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30,	2017	2016	Estimated Useful Life
Furniture and equipment	\$ 278,341	\$ 278,341	7 years
Leasehold improvements	586,720	586,720	Life of lease
	865,061	865,061	
Less: accumulated depreciation and amortization	(861,950)	(807,721)	
	<u>\$ 3,111</u>	<u>\$ 57,340</u>	

GLOBAL KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

4. PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense totaled \$54,229 and \$61,626 for the years ended June 30, 2017 and 2016, 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 67% and 33%, respectively, of the Organization's receivables as of June 30, 2017 and 2016 was derived from two grantors.

Approximately 80% and 73%, respectively, of the Organization's grants and contributions revenue for the years ended June 30, 2017 and 2016 was derived from one grantor.

Approximately 86% and 82%, respectively, of the Organization's training and technical assistance fees revenue for the year ended June 30, 2017 and 2016 was derived from two organizations.

One vendor constituted 48% and 33% of the Organization's payables at June 30, 2017 and 2016, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are purpose and time restricted, and consist of the following balances at June 30, 2017 and 2016:

	2017	2016
Purpose Restricted:		
School Based Youth Development	\$ -	\$ 29,846
Leadership and Peer Education	169,320	227,320
Online Leadership Program	7,500	100,000
Global DC	60,000	80,000
Total Temporarily Restricted Net Assets	<u>\$ 236,820</u>	<u>\$ 437,166</u>

Net assets were released from restrictions by satisfying the restricted purposes for the years ended June 30, 2017 and 2016, as follows:

	2017	2016
Purpose Restricted:		
School Based Youth Development	\$ 29,846	\$ 161,295
Leadership and Peer Education	167,000	350,394
Online Leadership Program	195,000	48,100
Global DC	20,000	69,787
Other Program	-	25,000
Total Released from Restrictions	<u>\$ 411,846</u>	<u>\$ 654,576</u>

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

7. EMPLOYEES' PENSION PLAN

The Organization maintains a defined contribution 403(b) plan for all eligible employees. The Organization does not contribute to this plan. Full-time employees aged 21 or more with one year of service are eligible to participate in the plan. Eligible participants are allowed to contribute up to the maximum annual limitation set forth in the Internal Revenue Code.

The Organization also maintains a defined contribution 401(a) plan for all eligible employees, as defined, which is funded entirely at the discretion of the Organization; participants are not allowed to contribute to the plan. All full-time employees aged 21 or more with one year of service are eligible to participate in the plan. For the year ended June 30, 2017, the Organization declared a discretionary contribution totaling \$82,720. There were no discretionary contributions made for the year ended June 30, 2016.

8. LINE OF CREDIT

The Organization has a line of credit agreement with a financial institution to access a maximum of \$1,000,000, with interest at the bank's note rate, as defined in the line of credit agreement, which would provide short-term working capital. The line was renewed in May 2017, at the same note rate (6.33% and 5.58% as of June 30, 2017 and 2016, respectively), and expires in May 2018.

The line of credit balance outstanding at June 30, 2017 and 2016 was \$200,000 and \$50,000, respectively. The line of credit balance was fully paid off as of the report date.

9. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization was obligated under a lease agreement for office space in NYC which expired April 30, 2017.

Effective May 1, 2017, the Organization renewed the lease agreement, and entered into a 5 year non-cancelable lease for office space. The Organization is obligated through July 31, 2022 for monthly fixed rental payments of \$41,667. The landlord provided the Organization with 9 months of free rent from May 1, 2017 through January 31, 2018 as concessions for the negotiation period.

Future minimum rental payments under this new lease are as follows:

Year Ended		
June 30,		
2018	\$	208,333
2019		500,000
2020		500,000
2021		500,000
2022		500,000
Thereafter		41,667
	\$	<u>2,250,000</u>

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 \$304,703 and \$266,416 for the years ended June 30, 2017 and 2016, respectively.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lease Commitments (continued)

The Organization was obligated under a lease agreement for office equipment in NYC, which expired on 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,	
2018	\$ 19,920
2019	19,920
2020	19,920
2021	16,600
	<hr/>
	\$ 76,360

Contingencies

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

The Organization has evaluated events through February 7, 2018, which is the date the financial statements were available to be issued.