

GLOBAL KIDS, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2019 AND 2018

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, 2019 and 2018, and the related statements of activities, 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, 2019 and 2018, 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.

An independent member of Baker Tilly International

Other Matters

Our audits were 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 audits 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 21, 2020 on our consideration of Global Kids, Inc.'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 solely 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 effectiveness of the Organization's 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 Global Kids, Inc.'s internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
January 21, 2020

GLOBAL KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS	2019	2018
Cash and cash equivalents	\$ 924,598	\$ 623,351
Restricted cash	68,320	88,320
Receivables	1,733,107	2,258,661
Prepaid expenses and other assets	24,013	16,693
Security deposits	55,743	55,588
Property and equipment, net	5,449	1,556
TOTAL ASSETS	\$ 2,811,230	\$ 3,044,169
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 494,339	\$ 448,554
Line of credit payable	-	100,000
Deferred rent	220,240	291,669
TOTAL LIABILITIES	714,579	840,223
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS		
Net assets - without donor restrictions	1,889,831	1,772,716
Net assets - with donor restrictions	206,820	431,230
TOTAL NET ASSETS	2,096,651	2,203,946
TOTAL LIABILITIES AND NET ASSETS	\$ 2,811,230	\$ 3,044,169

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

GLOBAL KIDS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Grants and contributions	\$ 5,692,544	\$ 5,627,550
Training and technical assistance fees	243,871	289,002
Special events, net of direct expenses of \$20,413 and \$18,728 in 2019 and 2018, respectively	187,347	215,921
Interest and dividends	224	191
Other income	-	2,686
	<u>6,123,986</u>	<u>6,135,350</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions	<u>462,235</u>	<u>428,500</u>
TOTAL REVENUE AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	<u>6,586,221</u>	<u>6,563,850</u>
EXPENSES		
PROGRAM SERVICES		
School Based Youth Development	4,252,776	4,328,796
School Based Workforce Innovation and Opportunity Act ("WIOA") - Year 3	128,929	-
School Based Workforce Innovation and Opportunity Act ("WIOA") - Year 2	39,042	151,196
School Based Workforce Innovation and Opportunity Act ("WIOA") - Year 1	2,509	35,413
School Based Workforce Investment Act ("WIA") - Year 7	-	3,674
Leadership and Peer Education	396,641	214,929
Digital Learning and Leadership Program	222,031	253,217
Global DC	489,402	421,063
Other programs	54,075	94,232
	<u>5,585,405</u>	<u>5,502,520</u>
SUPPORTING SERVICES		
Management and administration	709,595	772,752
Fundraising	174,106	84,346
	<u>883,701</u>	<u>857,098</u>
TOTAL EXPENSES	<u>6,469,106</u>	<u>6,359,618</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>117,115</u>	<u>204,232</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions	237,825	622,910
Net assets released from restrictions	<u>(462,235)</u>	<u>(428,500)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(224,410)</u>	<u>194,410</u>
CHANGE IN NET ASSETS	(107,295)	398,642
NET ASSETS - BEGINNING OF YEAR	<u>2,203,946</u>	<u>1,805,304</u>
NET ASSETS - END OF YEAR	<u>\$ 2,096,651</u>	<u>\$ 2,203,946</u>

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

GLOBAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

PROGRAM SERVICES

SUPPORTING SERVICES

	PROGRAM SERVICES						SUPPORTING SERVICES					
	School Based Youth Development	School Based WIOA Year 3	School Based WIOA Year 2	School Based WIOA Year 1	Leadership and Peer Education	Digital Learning and Leadership Program	Global DC	Other Programs	Total Program Services	Management and Administration (M&A)	Fundraising	Total
Salaries and benefits	\$ 3,326,894	\$ 125,855	\$ 38,750	\$ 1,459	\$ 231,428	\$ 153,019	\$ 318,903	\$ 42,679	\$ 4,238,987	\$ 201,351	\$ 166,181	\$ 4,606,519
Rent and occupancy	60,305	-	-	-	33,594	32,600	13,063	-	139,562	311,424	-	450,986
Printing	22,678	-	-	-	300	-	2,446	-	25,424	2,935	770	29,129
Travel	84,275	1,500	-	-	50,928	4,553	101,184	2,535	244,975	440	19	245,434
Postage	1,708	-	-	-	-	-	-	-	1,708	426	219	2,353
Food	79,129	659	-	-	10,367	901	5,382	1,818	98,256	489	1,142	99,887
Supplies	83,101	115	292	-	4,388	230	5,167	-	93,293	1,234	498	95,025
Consultants and professional fees	443,342	-	-	-	15,010	15,264	21,077	-	494,693	143,608	993	639,294
Repairs and maintenance	5,517	-	-	-	4,017	3,012	1,607	6,025	20,178	1,405	-	21,583
Telephone and utilities	11,984	-	-	-	2,456	620	540	-	15,600	12,693	-	28,293
Equipment purchase and leases	27,130	-	-	-	3,580	11,266	6,369	-	48,345	3,750	-	52,095
Student stipend and incentives	20,709	-	-	150	30,247	200	-	1,018	52,324	-	-	52,324
Insurance	14,611	800	-	-	5,891	-	4,331	-	25,633	-	-	25,633
Depreciation	1,000	-	-	-	-	-	-	-	1,000	1,916	-	2,916
Miscellaneous	70,393	-	-	900	4,435	366	9,333	-	85,427	27,924	4,284	117,635
Total expenses before M&A allocation	4,252,776	128,929	39,042	2,509	396,641	222,031	489,402	54,075	5,585,405	709,595	174,106	6,469,106
M&A allocation	466,745	12,597	3,900	145	79,328	44,406	91,660	10,814	709,595	(709,595)	-	-
Total Expenses	\$ 4,719,521	\$ 141,526	\$ 42,942	\$ 2,654	\$ 475,969	\$ 266,437	\$ 581,062	\$ 64,889	\$ 6,295,000	\$ -	\$ 174,106	\$ 6,469,106

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

GLOBAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

PROGRAM SERVICES

SUPPORTING SERVICES

	PROGRAM SERVICES						SUPPORTING SERVICES					
	School Based Youth Development	School Based WIOA Year 2	School Based WIOA Year 1	School Based WIA Year 7	Leadership and Peer Education	Digital Learning and Leadership Program	Global DC	Other Programs	Total Program Services	Management and Administration (M&A)	Fundraising	Total
Salaries and benefits	\$ 3,295,634	\$ 150,113	\$ 33,183	\$ 2,781	\$ 114,539	\$ 212,223	\$ 256,601	\$ 84,606	\$ 4,149,680	\$ 242,190	\$ 69,968	\$ 4,461,838
Rent and occupancy	20,076	-	-	-	13,554	17,143	10,372	-	61,145	379,493	8,571	449,209
Printing	25,110	-	-	-	645	780	2,983	-	29,518	523	107	30,148
Travel	81,820	-	201	429	37,268	6,503	82,291	4,872	213,384	-	-	213,384
Postage	4,700	-	-	-	-	-	37	13	4,750	40	369	5,159
Food	81,346	275	642	-	7,188	2,217	3,635	1,621	96,924	690	553	98,167
Supplies	73,251	108	155	464	802	2,263	4,051	681	81,775	439	580	82,794
Consultants and professional fees	540,583	-	-	-	7,428	9,759	49,833	1,237	608,840	123,266	2,492	734,598
Repairs and maintenance	4,043	-	-	-	888	888	1,065	-	6,884	10,869	-	17,753
Telephone and utilities	15,814	-	-	-	290	300	1,257	-	17,661	2,633	-	20,294
Equipment rental	40,633	-	-	-	-	-	2,599	-	43,232	-	-	43,232
Student stipend and incentives	60,670	-	1,060	-	32,203	-	-	155	94,088	-	-	94,088
Insurance	17,321	700	172	-	-	-	2,700	-	20,893	-	-	20,893
Depreciation	1,000	-	-	-	-	-	-	-	1,000	555	-	1,555
Miscellaneous	66,795	-	-	-	124	1,141	3,639	1,047	72,746	12,054	1,706	86,506
Total expenses before M&A allocation	4,328,796	151,196	35,413	3,674	214,929	253,217	421,063	94,232	5,502,520	772,752	84,346	6,359,618
M&A allocation	567,428	15,022	3,354	278	52,682	27,936	80,582	25,470	772,752	(772,752)	-	-
Total Expenses	\$ 4,896,224	\$ 166,218	\$ 38,767	\$ 3,952	\$ 267,611	\$ 281,153	\$ 501,645	\$ 119,702	\$ 6,275,272	\$ -	\$ 84,346	\$ 6,359,618

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

GLOBAL KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (107,295)	\$ 398,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,916	1,555
Deferred rent	(71,429)	220,240
Changes in operating assets and liabilities:		
Receivables	525,554	(565,762)
Prepaid expenses and other assets	(7,320)	75,788
Security deposits	(155)	-
Accounts payable and accrued expenses	45,785	55,724
NET CASH PROVIDED BY OPERATING ACTIVITIES	388,056	186,187
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,809)	-
NET CASH USED IN INVESTING ACTIVITIES	(6,809)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	100,000
Repayment of line of credit	(100,000)	(200,000)
NET CASH USED IN FINANCING ACTIVITIES	(100,000)	(100,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	281,247	86,187
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	711,671	625,484
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 992,918	\$ 711,671
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 750	\$ 3,162
Cash paid for unrelated business income taxes	\$ 11,762	\$ -
Cash and Cash Equivalents and Restricted Cash Consist of:		
Cash and cash equivalents	\$ 924,598	\$ 623,351
Restricted cash	68,320	88,320
Total	\$ 992,918	\$ 711,671

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

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. ORGANIZATION

Global Kids, Inc. (the "Organization") is a New York City ("NYC")-based non-profit educational organization. Its mission is to educate, activate, and inspire youth from underserved communities to take action on critical issues facing 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 develop global competency, critical thinking, leadership, communication, collaborative problem solving, and conflict resolution skills. Annually, the Organization works closely with numerous schools throughout NYC, Washington, DC, 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 United States 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 currently the lead agency providing services at six NYC Department of Education Community Schools and six NYC Department of Community Development School's Out New York City (SONYC) middle school programs. In 2008, the Organization authored Teen Action, a widely hailed service learning curriculum which is used at scores of after-school program sites across NYC. The Organization's Digital Learning and Leadership Program, now in its seventeenth 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 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.

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").

This 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 the two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor-imposed restrictions are perpetual in nature.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions.

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.

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, 2019 and 2018 was \$68,320 and \$88,320, respectively.

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, 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, 2019 and 2018, no allowance was necessary because the receivable balance was determined to be fully collectable. All receivables at June 30, 2019 and 2018 are due in less than one year.

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 (see Note 5). It is the Organization's policy to capitalize property and equipment expenditures in excess of \$5,000 on a per unit basis. 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.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018.

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. Deferred rent represents the adjustment to future rents as a result of using the straight-line method. The accompanying statements of financial position reflect a deferred rent liability of \$220,240 and \$291,669 at June 30, 2019 and 2018, 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, 2019 and 2018.

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. For the years ended June 30, 2019 and 2018, the Organization reported special events support of \$207,760 and \$234,649, respectively, with direct expenses of \$20,413 and \$18,728, 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, 2019 AND 2018

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, 2016.

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.

Adopted Accounting Pronouncement

Financial Statement Presentation

During the year ended June 30, 2019, the Organization adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The Organization has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the Organization reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the Organization’s financial position and changes in net assets. In addition, the Organization has elected to continue to present a reconciliation in the statements of cash flows consistent with the indirect method.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue From Contracts With Customers

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.

Classification of Certain Cash Receipts and Cash Payments

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.

Lease Accounting

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. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections. 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 originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Organization's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The Organization is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

GLOBAL KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on previously reported change in net assets.

Subsequent Events

The Organization has evaluated events through December 20, 2019, which is the date the financial statements were available to be issued.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization maintains, on average, \$250,000 in its checking account for general and recurring expenditures and obligations. The Organization also maintains a separate form of operational reserve with the objective of setting aside funds to be drawn upon in the event of a budget deficit or any financial distress. These reserved funds are held in lower-risk cash and money market funds. The current balance of this reserve is included in cash and cash equivalents on the statements of financial position.

June 30,	2019	2018
Cash and cash equivalents	\$ 924,598	\$ 623,351
Restricted cash	68,320	88,320
Receivables	<u>1,733,107</u>	<u>2,258,661</u>
Total financial assets available within one year	2,726,025	2,970,332
Less: amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	206,820	431,230
Cash restricted for scholarships	68,320	88,320
Less: amounts unavailable to management within one year due to:		
Debt maturities payable within one year	<u>-</u>	<u>100,000</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 2,450,885</u>	<u>\$ 2,350,782</u>

In managing its liquidity needs, the Organization has a committed line of credit totaling \$1,000,000 (see Note 9), which it could draw down upon, if necessary.

GLOBAL KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

4. RECEIVABLES

Receivables are summarized as follows:

June 30,	2019	2018
Grants and contributions	\$ 1,663,057	\$ 2,201,411
Fee income	<u>70,050</u>	<u>57,250</u>
	<u>\$ 1,733,107</u>	<u>\$ 2,258,661</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30,	2019	2018	Estimated Useful Life
Furniture and equipment	\$ 36,627	\$ 29,818	7 years
Less: accumulated depreciation	<u>(31,178)</u>	<u>(28,262)</u>	
	<u>\$ 5,449</u>	<u>\$ 1,556</u>	

Depreciation expense totaled \$2,916 and \$1,555 for the years ended June 30, 2019 and 2018, respectively.

6. 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 35% and 23% of the Organization's receivables as of June 30, 2019 and 2018, respectively, was derived from two grantors.

Approximately 92% and 81% of the Organization's grants and contributions revenue for the years ended June 30, 2019 and 2018, respectively, was derived from one grantor.

Approximately 42% and 33% of the Organization's training and technical assistance fees revenue for the years ended June 30, 2019 and 2018, respectively, was derived from one organization.

Two vendors constituted 44% of the Organization's payables at June 30, 2019. Three vendors constituted 61% of the Organization's payables at June 30, 2018.

GLOBAL KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are purpose and time restricted, and consist of the following balances at June 30, 2019 and 2018:

	2019	2018
Purpose Restricted:		
Leadership and Peer Education	\$ 166,820	\$ 271,230
Digital Learning and Leadership Program	20,000	120,000
Global DC	20,000	40,000
Total Net Assets With Donor Restrictions	<u>\$ 206,820</u>	<u>\$ 431,230</u>

Net assets were released from restrictions by satisfying the restricted purposes for the years ended June 30, 2019 and 2018, as follows:

	2019	2018
Purpose Restricted:		
School Based Youth Development	\$ 55,000	\$ -
Leadership and Peer Education	237,235	231,000
Digital Learning and Leadership Program	150,000	177,500
Global DC	20,000	20,000
Total Released from Restrictions	<u>\$ 462,235</u>	<u>\$ 428,500</u>

8. EMPLOYEES' PENSION PLAN

The Organization maintains a defined contribution 403(b) plan for all eligible employees. The Organization does not contribute to this 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 with one year of service are eligible to participate in the plan. For the years ended June 30, 2019 and 2018, the Organization declared a discretionary contribution totaling \$81,175 and \$63,630, respectively.

9. 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 2019 at the same note rate (5.45% and 7.22% as of June 30, 2019 and 2018, respectively), and expires in May 2020.

There was no outstanding balance on the line of credit at June 30, 2019. The line of credit balance outstanding at June 30, 2018 was \$100,000.

GLOBAL KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Effective May 1, 2017, the Organization renewed its then existing 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,	
2020	\$ 500,000
2021	500,000
2022	500,000
2023	41,667
	<u>\$ 1,541,667</u>

The Organization also leases space in Washington, D.C. on a month-to-month basis at \$1,005 per month. The lease expires on June 30, 2020.

Rent expense was \$450,986 and \$449,209 for the years ended June 30, 2019 and 2018, respectively.

The Organization is obligated under a lease agreement for office equipment in NYC at \$1,660 per month through April 20, 2021.

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

Year Ended June 30,	
2020	\$ 19,920
2021	16,600
	<u>\$ 36,520</u>

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 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, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through New York City Board of Education			
21st Century Community Learning Centers	84.287	11X508	\$ 246,368
21st Century Community Learning Centers	84.287	30Q445	291,893
Pass-through Office of the State Superintendent of Education			
21st Century Community Learning Centers	84.287	62287C	61,382
21st Century Community Learning Centers	84.287	92287C	176,948
Total from U.S. Department of Education			776,591
<u>U.S. DEPARTMENT OF LABOR</u>			
Pass-through Department of Youth and Community Development			
Workforce Innovation and Opportunity Act - Year 1	17.259	90335	2,654
Workforce Innovation and Opportunity Act - Year 2	17.259	90335	42,942
Workforce Innovation and Opportunity Act - Year 3	17.259	90335	141,526
Total from U.S. Department of Labor			187,122
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-through Department of Youth and Community Development			
Community Service Block Grants	93.569	850107	58,896
<u>NATIONAL SCIENCE FOUNDATION (Education and Human Resources)</u>			
Education and Human Resources	47.076	1811275	26,096
Total Expenditures of Federal Awards			\$ 1,048,705

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, 2019**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Global Kids, Inc. (a not-for-profit organization) (the "Organization") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). 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 the Uniform Guidance, 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.

4. INDIRECT COSTS

The Organization has elected to use the 10% de minimis indirect cost rate that is agreed to within the Organization's contract with the New York City Department of Education. The Organization has elected to use the 8% indirect cost rate allowed under the Uniform Guidance for the remaining portion of the major program.



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, 2019, and the related statements of activities, 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 21, 2020.

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*.



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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
January 21, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors
Global Kids, Inc.

Report on Compliance with the Major Federal Program

We have audited Global Kids, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 with 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, the Organization 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, 2019.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance 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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
January 21, 2020

GLOBAL KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether the financial statements audited are in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes

No

Significant deficiency(ies) identified?

Yes

None reported

Noncompliance material to financial statements noted?

Yes

No

Federal Awards

Internal control over major federal program:

Material weakness(es) identified?

Yes

No

Significant deficiency(ies) identified?

Yes

None reported

Type of auditor’s report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes

No

Identification of Major Federal Program

<u>Name of Federal Program</u>	<u>CFDA Number</u>	<u>Expenditures</u>
21st Century Community Learning Centers	84.287	\$ 776,591

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes No

GLOBAL KIDS, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

None Noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Noted.

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None Noted.