

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)

JACKSON, MICHIGAN

FINANCIAL STATEMENTS

OCTOBER 31, 2016

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WILLIS & JURASEK
CPAS AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors of
National Fire Safety Council and Subsidiary

We have audited the accompanying consolidated financial statements of National Fire Safety Council (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of October 31, 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Fire Safety Council and Subsidiary as of October 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Willis & Turasek, P.C.

March 23, 2017

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2016

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 520,468
Contributions receivable - net	25,526
Other receivables	3,874
Inventory	195,003
Prepaid expenses	<u>64,450</u>
Total current assets	<u>809,320</u>
PROPERTY, PLANT, AND EQUIPMENT:	
Property and equipment - net	<u>1,061,392</u>
OTHER ASSETS:	
Due from related parties	<u>419,793</u>
Total assets	<u><u>\$ 2,290,505</u></u>

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	\$ 169,824
Accrued liabilities	110,678
Due to related parties	24,965
Installment contract payable - current portion	<u>6,990</u>
Total current liabilities	312,457
LONG-TERM LIABILITIES:	
Installment contract payable - net of current portion	<u>16,794</u>
Total liabilities	<u>329,251</u>

NET ASSETS

Undesignated, unrestricted	<u>1,961,254</u>
Total liabilities and net assets	<u><u>\$ 2,290,505</u></u>

(The accompanying notes are an integral part of these financial statements)

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2016

REVENUES:	
Contributions	\$ 3,080,547
Advertising revenue	142,079
Special fundraising - net	511,068
Rental activities - net	(18,143)
Other income	10,853
	<u>3,726,404</u>
Total revenues	<u>3,726,404</u>
EXPENSES:	
Program services:	
Fire safety education	1,146,233
Research and development	114,345
Total program services	<u>1,260,578</u>
Supporting services:	
Management and general	493,772
Special fundraising	429,133
Other fundraising	1,561,271
Total support services	<u>2,484,176</u>
Total expenses	<u>3,744,754</u>
EXCESS OF REVENUES OR (EXPENSES) - BEFORE OTHER INCOME (EXPENSES)	(18,350)
OTHER INCOME (EXPENSES):	
Gain (Loss) on sale of fixed assets	<u>(5,592)</u>
EXCESS OF REVENUES OR (EXPENSES)	(23,942)
NET ASSETS - BEGINNING	<u>1,985,196</u>
NET ASSETS - ENDING	<u>\$ 1,961,254</u>

(The accompanying notes are an integral part of these financial statements)

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (23,942)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	48,787
Loss on sale of fixed assets	5,592
Contributions receivable - net	3,243
Other receivables	(1,519)
Inventory	(35,668)
Prepaid expenses	(24,509)
Accounts payable	50,271
Accrued liabilities	3,940
	<hr/>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<hr/> 26,197 <hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(42,588)
Payments received from affiliated organizations - net	43,721
	<hr/>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<hr/> 1,133 <hr/>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on installment contracts	(6,454)
	<hr/>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<hr/> (6,454) <hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,876
CASH AND CASH EQUIVALENTS - BEGINNING	<hr/> 499,592 <hr/>
CASH AND CASH EQUIVALENTS - ENDING	<hr/> <u>\$ 520,468</u> <hr/>
SUPPLEMENTAL DISCLOSURE	
Interest paid (net of \$0 capitalized)	\$ 5,191
Income taxes paid	\$ 0

(The accompanying notes are an integral part of these financial statements)

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2016

	PROGRAM SERVICES		
	FIRE SAFETY EDUCATION	RESEARCH AND DEVELOPMENT	TOTAL PROGRAM SERVICES
COMPENSATION:			
Salaries	\$ 384,583	\$ 99,160	\$ 483,743
Employee benefits and taxes	56,147	14,477	70,624
Total compensation	<u>440,730</u>	<u>113,637</u>	<u>554,367</u>
OTHER EXPENSES:			
Educational publications and materials	514,004		514,004
Supplies	11,542		11,542
Travel and company paid expenses	4,855		4,855
Postage and copies	14,932		14,932
Legal and professional	22,442		22,442
Utilities	430		430
Automobile	4,579		4,579
Telephone	2,970		2,970
Maintenance and repairs	18,796		18,796
Filing fees and licenses	3,428		3,428
Insurance	61,393		61,393
Interest	3,005		3,005
Contract services	940		940
Dues and subscriptions			0
Office and equipment rental	12,919		12,919
Data processing expense			0
Conventions and meetings	10,466		10,466
Miscellaneous	1,111	708	1,819
Property taxes			0
Bingo paper and gaming products			0
Advertising			0
Total expenses before depreciation	<u>1,128,542</u>	<u>114,345</u>	<u>1,242,887</u>
Depreciation	<u>17,691</u>		<u>17,691</u>
Total expenses	<u>\$ 1,146,233</u>	<u>\$ 114,345</u>	<u>\$ 1,260,578</u>

(The accompanying notes are an integral part of these financial statements)

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2016

SUPPORTING SERVICES				
MANAGEMENT AND GENERAL	SPECIAL FUND RAISING	OTHER FUND RAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
\$ 290,598	\$	\$ 994,807	\$ 1,285,405	\$ 1,769,148
42,425		82,787	125,212	195,836
<u>333,023</u>	<u>0</u>	<u>1,077,594</u>	<u>1,410,617</u>	<u>1,964,984</u>
			0	514,004
6,256	55,201	36,023	97,480	109,022
4,854		320,485	325,339	330,194
3,733	14	95,048	98,795	113,727
22,441	7,352	4,987	34,780	57,222
430	27,557	430	28,417	28,847
2,290			2,290	6,869
2,970	5,193	2,971	11,134	14,104
9,434	47,214	23,304	79,952	98,748
429	30,140	429	30,998	34,426
54,096	500		54,596	115,989
2,186			2,186	5,191
	36,915		36,915	37,855
1,605			1,605	1,605
5,152	2,400		7,552	20,471
34,968			34,968	34,968
			0	10,466
405	24,285		24,690	26,509
654			654	654
	118,061		118,061	118,061
	64,033		64,033	64,033
<u>484,926</u>	<u>418,865</u>	<u>1,561,271</u>	<u>2,465,062</u>	<u>3,707,949</u>
<u>8,846</u>	<u>10,268</u>		<u>19,114</u>	<u>36,805</u>
<u>\$ 493,772</u>	<u>\$ 429,133</u>	<u>\$ 1,561,271</u>	<u>\$ 2,484,176</u>	<u>\$ 3,744,754</u>

(The accompanying notes are an integral part of these financial statements)

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities -

The consolidated financial statements include the accounts of National Fire Safety Council, and its wholly-owned subsidiary, United States Fire Safety Services, Inc. (Collectively referred to as the Organization).

National Fire Safety Council is a not-for-profit organization which promotes the importance of fire safety to adults and children across the country. The Organization accomplishes its goal by creating, producing, and distributing literature primarily to elementary schools. Donations are solicited to support these activities in addition to certain fundraising activities.

United States Fire Safety Services, Inc. (the Subsidiary), the subsidiary of the Organization, is a for-profit corporation, also supporting the promotion of the importance of fire safety through the sale of advertisements to be printed on the fire safety literature it distributes.

The Organization shares common management, personnel, and facilities with certain other not-for-profit organizations in a coordinated effort to provide a wide range of child safety training and education.

Basis of Accounting -

The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned. Expenses are recognized when incurred.

Estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation -

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Not-for-Profit Organizations (FASB ASC 958-205). Under FASB ASC 958-205 the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents -

Cash and cash equivalents include all monies in banks and petty cash on hand.

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventory -

Inventory consists of educational materials and supplies for fire safety programs. It is stated at the lower of cost or market by using the first-in, first-out (FIFO) method. The materials are charged to the expense when they are shipped to the sponsoring organizations.

Contributions and Pledges Receivable -

Program representatives obtain pledges from businesses and organizations with the communities who choose to conduct fire safety programs utilizing the Organization's materials and resources in order to support the effort. Contributions are reported as revenue when pledged. Accordingly, a contribution receivable is recorded at year end for outstanding pledges with an allowance for amounts estimated to be uncollectible. Uncollectible pledges are written off after a reasonable period following the delivery of the fire safety program.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the contribution are both reported as unrestricted support. Other restricted contributions are reported as restricted support and temporarily or permanently restricted net assets.

Property and Equipment -

Property and equipment are carried at cost. Depreciation is provided using the straight-line method for financial reporting purposes over the estimated useful lives of depreciable assets. Maintenance and repairs that do not improve or extend the useful lives of assets are expensed in the period the cost is incurred.

Special Fundraising -

Special fundraising revenue is the net gain from charitable gaming activities, which is the difference between charitable gaming gross revenues and related charitable gaming payouts.

Functional Allocation of Expenses -

The costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different result.

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes -

The Organization, as described in Section 501(c)(3) of the Internal Revenue Code, is exempt from federal and state income taxes. The Organization has adopted the provisions of FASB ASC 740-10. The adoption of FASB ASC 740-10 has not resulted in any changes in tax provisions. There are no known federal or state tax contingencies. The Internal Revenue Service also requires a not-for-profit organization to file a 990-T Exempt Organization Business Income Tax Return, a tax return for unrelated business revenues in excess of \$1,000. The Organization receives unrelated revenue from rental income and is therefore required to file a 990-T.

The Organization and Subsidiary's federal income tax returns for 2015 and 2014 remain open to examination by the Internal Revenue Service. In evaluating the Organization's tax provisions, the Organization and Subsidiary believe that its estimates are appropriate based on current facts and circumstances.

Subsequent Events -

Management has evaluated subsequent events and transactions for potential recognition or disclosure through March 23, 2017, the date that the financial statements were available to be issued. Subsequent to the fiscal year ended October 31, 2016, the following transaction occurred, which further solidified the financial position of the Organization.

During January 2017, the Organization became the benefactor of a life insurance policy. Proceeds from the life insurance policy totaling \$375,000 were received during March 2017.

NOTE 2 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following amounts at October 31, 2016:

Contributions receivable	\$ 63,322
Less: Allowance for uncollectible contributions	<u>(37,796)</u>
Contributions receivable – net	<u>\$ 25,526</u>

Contributions are expected to be collected within one year.

NOTE 3 - FIXED ASSETS:

The following is a summary of fixed assets at October 31, 2016:

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - FIXED ASSETS (Continued):

	2016
Land	\$ 294,334
Land improvements	30,000
Buildings	798,891
Building improvements	752,894
Machinery and equipment	641,848
Furniture and fixtures	84,465
Total	2,602,432
Less: Accumulated depreciation	1,541,040
Net fixed assets	\$ 1,061,392

Certain property included above is used by the Organization in its rental activities reported under revenue. Depreciation expense at October 31, 2016, related to that property was \$11,982 and netted against the related amounts for rental activities. The remaining depreciation of \$36,805 was included in expenses in the consolidated statement of functional expenses.

NOTE 4 - DUE FROM RELATED PARTIES:

The following is a summary of amounts due from affiliated organizations as of October 31, 2016:

National Child Safety Council	\$ 405,553
National Drug & Safety League	12,604
Child Safety of America	1,636
Total due from related parties	\$ 419,793

The organizations above are all affiliated with the Organization through common management, personnel, and facilities. These loans are unsecured and have no stated interest or repayment terms.

NOTE 5 - DUE TO FOUNDER:

The Organization has borrowed \$24,965 from its founder, H.R. Wilkinson, as of October 31, 2016. This loan is unsecured and has no stated interest or repayment terms.

NOTE 6 - INSTALLMENT CONTRACT PAYABLE:

In 2005, the Organization entered into a contract with an individual for the sale of land. The total contract amount was \$85,000 with a down payment of \$10,000. The remaining \$75,000 is to be paid over 15 years, with monthly principal and interest payments of \$720 at an interest rate of 8 percent. The final payment is due by February 25, 2020.

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - INSTALLMENT CONTRACT PAYABLE (Continued):

Principal payments for the four subsequent years ended October 31 are as follows:

2017	\$ 6,990
2018	7,570
2019	8,199
2020	<u>1,025</u>
	<u>\$ 23,784</u>

NOTE 7 - JOINT COSTS:

The Organization incurs certain expenses (i.e., salaries, employee benefits and taxes, and travel for the field services of safety counselors) that are considered to be joint activity costs pursuant to FASB ASC 958-720. Under this standard, a “joint activity” is an activity that is part of the fundraising function and has elements of one or more other functions, such as program or management and general.

FASB ASC 958-720 established various criteria relating to purpose, audience, and content for the purpose of determining whether the cost of the joint activity should be allocated among functional categories or charged entirely to fundraising. Management believes that the Organization’s joint activity meets all of the FASB ASC 958-720 criteria necessary to permit allocation, except for certain considerations regarding compensation for performance of the joint activity. In this instance, the Organization’s safety counselors are compensated based on the contributions raised by the joint activity. While this is an integral incentive to promote performance and the Organization has concluded that its safety counselors are spending less than 10 percent of their time on fundraising, FASB ASC 958-720 nonetheless, requires that all costs of the joint activity be charged to fundraising because of the compensation arrangement.

Accordingly, to conform with the generally accepted accounting principles, the Organization has reported the entire cost of the joint activity, which for the year ended October 31, 2016, totaled \$1,322,568, within fundraising expense in the accompanying consolidated statement of activities. If the Organization were allowed to allocate the costs of the joint activity, the distribution of such costs would have been as follows for the year ended October 31, 2016:

Program services	\$ 1,190,311
Fundraising	<u>132,257</u>
Total	<u>\$ 1,322,568</u>