

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
(A Nonprofit Organization)

JACKSON, MICHIGAN

FINANCIAL STATEMENTS

OCTOBER 31, 2019

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors and Management 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, 2019, 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 Consolidated 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 consolidated 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, 2019, 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 & Jarasek, P.C.

February 21, 2020

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2019

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 675,819
Restricted cash	107,870
Investments	546,067
Contributions receivable - net	11,685
Other receivables	3,226
Inventory	272,239
Prepaid expenses	34,999
Total current assets	<u>1,651,905</u>

OTHER ASSETS:

Due from related parties	<u>199,808</u>
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PROPERTY, PLANT, AND EQUIPMENT:

Property and equipment - net	<u>1,049,726</u>
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Total assets	<u><u>\$ 2,901,439</u></u>
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LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 51,466
Accrued liabilities	92,016
Accrued income taxes	5,714
Installment contract payable - current portion	1,025
Total liabilities	<u>150,221</u>

NET ASSETS

Net assets without donor restrictions	<u>2,751,218</u>
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Total liabilities and net assets	<u><u>\$ 2,901,439</u></u>
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(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, 2019

REVENUES:	
Contributions	\$ 3,186,856
Advertising revenue	163,175
Special fundraising - net	386,486
Rental activities - net	(5,422)
Other income	6,161
	<hr/>
Total revenues	3,737,256
	<hr/>
EXPENSES:	
Program services:	
Fire safety education	1,159,094
Research and development	132,322
Total program services	<hr/>
Supporting services:	1,291,416
Management and general	471,847
Special fundraising	355,605
Other fundraising	1,544,750
Total support services	<hr/>
	2,372,202
	<hr/>
Total expenses	3,663,618
	<hr/>
EXCESS OF REVENUES OR (EXPENSES) - BEFORE OTHER INCOME (EXPENSES)	73,638
OTHER INCOME (EXPENSES):	
Investment income - net	13,130
Unrealized gain (loss) on investments	48,504
Gain (loss) on disposal of fixed assets	(17,190)
Income tax expense	(10,064)
Total other income (expenses)	<hr/>
	34,380
	<hr/>
EXCESS OF REVENUES OR (EXPENSES)	108,018
NET ASSETS WITHOUT DONOR RESTRICTIONS - BEGINNING	<hr/>
	2,643,200
NET ASSETS WITHOUT DONOR RESTRICTIONS - ENDING	<hr/>
	\$ 2,751,218
	<hr/>

(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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 108,018
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization expense	87,039
Unrealized (gain) loss on investments	(48,504)
Investment income reinvested	(10,992)
(Gain) loss on disposal of fixed assets	17,190
Change in:	
Contributions receivable - net	(2,762)
Other receivables	1,389
Inventory	7,984
Prepaid expenses	(8,499)
Accounts payable	(94,705)
Accrued liabilities	123
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>56,281</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(16,091)
Payments received from affiliated organizations - net	<u>30,599</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>14,508</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings from related parties - net	(10,872)
Payments on installment contracts	<u>(8,199)</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(19,071)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,718
CASH - BEGINNING	<u>731,971</u>
CASH - ENDING	<u><u>\$ 783,689</u></u>
SUPPLEMENTAL DISCLOSURE	
Interest paid (net of \$0 capitalized)	\$ 442
Income taxes paid	\$ 4,350
CASH ON THE STATEMENT OF FINANCIAL POSITION SHOWN AS:	
Cash and cash equivalents	\$ 675,819
Restricted Cash	107,870
Total Cash	<u><u>\$ 783,689</u></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, 2019

	PROGRAM SERVICES		
	FIRE SAFETY EDUCATION	RESEARCH AND DEVELOPMENT	TOTAL PROGRAM SERVICES
COMPENSATION:			
Salaries	\$ 368,577	\$ 114,586	\$ 483,163
Employee benefits and taxes	55,802	17,294	73,096
Total compensation	424,379	131,880	556,259
OTHER EXPENSES:			
Educational publications and materials	564,908		564,908
Supplies	4,744	442	5,186
Travel and company paid expenses	16,449		16,449
Postage and copies	4,631		4,631
Legal and professional	27,496		27,496
Utilities	9,444		9,444
Automobile	1,957		1,957
Telephone	4,989		4,989
Maintenance and repairs	13,064		13,064
Filing fees and licenses	2,692		2,692
Insurance	43,295		43,295
Interest and service charges	2,331		2,331
Contract services	7,161		7,161
Dues and subscriptions			0
Office and equipment rental	6,523		6,523
Data processing expense			0
Conventions and meetings	11,182		11,182
Miscellaneous			
Property taxes			0
Bingo paper and gaming products			0
Advertising			0
Total expenses before depreciation and amortization	1,145,245	132,322	1,277,567
Depreciation	13,849		13,849
Total expenses	\$ 1,159,094	\$ 132,322	\$ 1,291,416

(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, 2019

MANAGEMENT AND GENERAL	SUPPORTING SERVICES		TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
	SPECIAL FUND RAISING	OTHER FUND RAISING		
\$ 209,214	\$ 11,745	\$ 1,100,129	\$ 1,321,088	\$ 1,804,251
31,705	1,753	92,181	125,639	198,735
<u>240,919</u>	<u>13,498</u>	<u>1,192,310</u>	<u>1,446,727</u>	<u>2,002,986</u>
			0	564,908
4,467	39,610	22,768	66,845	72,031
16,448		192,949	209,397	225,846
4,631		104,467	109,098	113,729
27,496	4,313	6,110	37,919	65,415
9,444	18,018	9,443	36,905	46,349
1,957			1,957	3,914
4,989	2,169	4,989	12,147	17,136
13,064	28,325	1,366	42,755	55,819
336	24,100	336	24,772	27,464
21,647			21,647	64,942
2,331			2,331	4,662
7,657	32,532		40,189	47,350
1,901			1,901	1,901
6,523	2,400	10,012	18,935	25,458
57,316			57,316	57,316
			0	11,182
523	24,456		24,979	24,979
522			522	522
	95,802		95,802	95,802
621	62,000		62,621	62,621
<u>422,792</u>	<u>347,223</u>	<u>1,544,750</u>	<u>2,314,765</u>	<u>3,592,332</u>
<u>49,055</u>	<u>8,382</u>		<u>57,437</u>	<u>71,286</u>
<u>\$ 471,847</u>	<u>\$ 355,605</u>	<u>\$ 1,544,750</u>	<u>\$ 2,372,202</u>	<u>\$ 3,663,618</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. The related organizations also share costs related to employees, occupancy and operations. These expenses are allocated based on the volume of activity for each entity.

New Accounting Pronouncement -

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and available resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Basis of Accounting -

The accompanying financial statements and information are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenditures are recognized when incurred.

Basis of Presentation -

Financial statement presentation follows the standards set by the Financial Accounting Standards Board (FASB). These standards were updated August, 2016 with an effective date of January 1, 2018. According to these professional standards, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation (continued) -

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations
- *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

Cash and Cash Equivalents -

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

The Indiana Charitable Gaming Commission requires the Organization to maintain a separate bank account for the gaming revenue collected from the bingo facility operated in Indianapolis, Indiana. This money cannot be mixed with the operating bank account of the Organization and the allowable expenses are limited by Indiana code section 4.32.2-5-3. As of October 31, 2019, the amount of restricted cash held by the Organization is \$107,870.

Investments -

The Organization classifies its investments as available-for-sale securities. Available-for-sale securities are recorded at fair value, with the change in fair value recorded as unrealized gain (loss) on investments.

Fair Value Measurements -

US GAAP establishes a fair value measurement framework, including a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under US GAAP are distinguished by inputs to the valuation methodology summarized as follows:

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value Measurements (continued) -

Level 1 (highest priority) – Quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and model-driven valuations in which all significant inputs or significant value drivers are observable in active markets.

Level 3 (lowest priority) – Management’s best estimate of what market participants would use in pricing the instrument at the measurement date and model-driven valuations which are unobservable and significant to the fair value measurement.

The assessed level is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for amounts measured at fair value:

Level 1 inputs – Descriptions of the valuation methodologies used for assets measured at fair value are as follows: common stocks, corporate bonds, and U.S. government securities valued at the closing price reported on the active market on which the individual securities are traded.

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. Inventory also includes a minimal amount of supplies for the special fundraising activities.

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 net assets with donor restrictions.

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Shipping and Handling Costs -

Shipping and handling costs are expensed as incurred and included in education publications and materials expense.

Advertising -

The Organization expenses advertising costs as they are incurred. Advertising expense, included in special fund raising, was \$62,621 for the year ended October 31, 2019.

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 a three-year period 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.

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Subsequent Events -

Management has evaluated subsequent events and transactions for potential recognition or disclosure through February 21, 2020, the date that the financial statements were available to be issued. No significant events were identified that would require adjustment or disclosure in the financial statements.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK:

The organization maintains cash balances at various financial institutions. Accounts at each institution are insured by the FDIC up to \$250,000. At various times during the fiscal year, the Organization's cash balances may have exceeded the federally insured limit. At October 31, 2019, uninsured cash balances totaled \$107,457.

NOTE 3 - FAIR VALUE OF INVESTMENTS:

The fair value of the Organization's investments are all classified as Level 1 investments, according to the Organization's policy described in Note 1.

The following is a breakdown of the change in Level 1 value for the year ended October 31, 2019:

Beginning Level 1 value	\$ 486,571
Investment income	18,680
Investment fees	(7,688)
Change in market value	48,504
Ending Level 1 value	<u>\$ 546,067</u>

The following is a breakdown of the carrying value of the investments by investment type as of October 31, 2019:

Cash and money market accounts	\$ 10,260
Corporate equities	277,489
Mutual funds	176,356
Government securities	53,869
Corporate bonds	28,093
Total	<u>\$ 546,067</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of the following amounts at October 31, 2019:

Contributions receivable	\$ 26,452
Less: Allowance for uncollectible contributions	<u>(14,767)</u>
Contributions receivable – net	<u>\$ 11,685</u>

Contributions are expected to be collected within one year.

NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - DUE FROM RELATED PARTIES:

The following is a summary of amounts due from affiliated organizations as of October 31, 2019:

National Child Safety Council	\$ 47,859
National Drug & Safety League	116,061
Child Safety of America	<u>35,888</u>
Total due from related parties	<u>\$ 199,808</u>

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 6 - FIXED ASSETS:

The following is a summary of fixed assets at October 31, 2019:

Land	\$ 294,333
Land improvements	86,003
Buildings	798,891
Building improvements	795,567
Machinery and equipment	627,233
Software	126,391
Furniture and fixtures	<u>84,465</u>
Total	2,812,883
Less: Accumulated depreciation	<u>1,763,157</u>
Net fixed assets	<u>\$ 1,049,726</u>

Certain property included above is used by the Organization in its rental activities reported under revenue. Depreciation expense at October 31, 2019, related to that property was \$13,971 and is netted against the related amounts for rental activities. The remaining depreciation of \$71,286 was included in expenses in the consolidated statement of functional expenses.

NOTE 7 - INSTALLMENT CONTRACT PAYABLE:

In 2005, the Organization entered into a contract with an individual for the purchase of property. 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.

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

2020	\$ 1,025
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NATIONAL FIRE SAFETY COUNCIL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - AVAILABILITY AND LIQUIDITY:

The Organization has \$1,544,035 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$675,819, investments of \$546,067, contributions receivable of \$11,685, other receivables of \$3,226, inventory of \$272,239 and prepaid expenses of \$34,999. The inventory and prepaid expenses will be expended as used during the upcoming year. The receivables are subject to implied time restrictions but are expected to be collected within one year. \$107,870 of the remaining current financial assets is subject to restrictions that make the funds unavailable for general expenditure within one year of the balance sheet date, however, these funds are expected to be used for charitable gaming expenses as allowed. While the Organization has not adopted a formal, written liquidity plan, it is the goal of the board of directors and management to ensure that the Organization has liquid assets to meet expenses as they become due. Excess cash generated by the Organization has been invested by the Organization in short-term savings accounts and other investment accounts that could be utilized in the event of an unanticipated liquidity need.

NOTE 9 - 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, 2019, totaled \$1,285,807, 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, 2019:

Program services	\$ 1,157,226
Fundraising	<u>128,581</u>
Total	<u>\$ 1,285,807</u>