

Financial Statements
Years Ended
June 30, 2019 and 2018

FREE THE KIDS, INC.
D/B/A THEO'S WORK, INC.



Sharrard, McGee & Co., PA

Strategy Meets Challenges

Table of Contents

	<u>Page</u>
Organization and Business	3
Independent Auditors' Report.....	4
Financial Statements	
Statements of financial position	5
Statements of activities.....	6
Statements of functional expenses	7-8
Statements of cash flows	9
Summary of accounting policies	10-11
Notes to financial statements.....	12-16

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.

Organization and Business

STATE OF ORGANIZATION

New Jersey

OFFICERS

Clifford Sethness	-	Chairperson of the Board
Bill Haggerty	-	Treasurer
Ken Graff	-	Secretary

BOARD MEMBERS

Brian Farley	Ken Graff
Bill Haggerty	Jim O'Hara
Jack Reynolds	Clifford Sethness
James P. Steele	



Sharrard, McGee & Co., PA

Strategy Meets Challenges

Independent Auditors' Report

To the Board of Directors of
Free the Kids, Inc. D/B/A Theo's Work, Inc.

We have audited the accompanying financial statements of Free the Kids, Inc. D/B/A Theo's Work, Inc. (a non-profit 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 entity'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 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 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 Free the Kids, Inc. D/B/A Theo's Work, 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 conformity with accounting principles generally accepted in the United States of America.

Sharrard, McGee & Co., P.A.

Greensboro, North Carolina
July 1, 2020

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Statements of Financial Position

	June 30,	
	2019	2018
<u>ASSETS</u>		
CURRENT:		
Cash and cash equivalents	\$ 580,757	\$ 802,277
Accrued interest receivable	4,177	4,913
Contribution receivable	770	780
Prepaid expenses	<u>20,978</u>	<u>7,799</u>
Total current assets	606,682	815,769
INVESTMENTS	<u>320,706</u>	<u>371,698</u>
	<u>\$ 927,388</u>	<u>\$ 1,187,467</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 20,353	\$ 3,265
Accrued payroll taxes	1,803	-
Deposits	<u>-</u>	<u>36,683</u>
Total current liabilities	<u>22,156</u>	<u>39,948</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Accumulated earnings	219,695	173,090
Board Designated	<u>461,902</u>	<u>703,139</u>
	681,597	876,229
NET ASSETS WITH DONOR RESTRICTIONS	<u>223,635</u>	<u>271,290</u>
Total net assets	<u>905,232</u>	<u>1,147,519</u>
	<u>\$ 927,388</u>	<u>\$ 1,187,467</u>

See accompanying summary of accounting policies and notes to financial statements.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Statements of Activities

	For the year ended June 30, 2019		For the year ended June 30, 2018			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 1,499,511	\$ 425,483	\$ 1,924,994	\$ 1,734,353	\$ 284,602	\$ 2,018,955
Contributions - non cash	248,993	-	248,993	314,100	-	314,100
Interest income	19,970	-	19,970	19,576	-	19,576
Total support and revenue	<u>1,768,474</u>	<u>425,483</u>	<u>2,193,957</u>	<u>2,068,029</u>	<u>284,602</u>	<u>2,352,631</u>
EXPENSES:						
Program services	2,138,175	-	2,138,175	2,511,818	-	2,511,818
General and administrative	85,409	-	85,409	85,527	-	85,527
Fundraising	215,405	-	215,405	196,475	-	196,475
Total expenses	<u>2,438,989</u>	<u>-</u>	<u>2,438,989</u>	<u>2,793,820</u>	<u>-</u>	<u>2,793,820</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(670,515)</u>	<u>425,483</u>	<u>(245,032)</u>	<u>(725,791)</u>	<u>284,602</u>	<u>(441,189)</u>
NON-OPERATING ACTIVITIES:						
Net assets released from restrictions	473,138	(473,138)	-	469,707	(469,707)	-
Realized gain (loss)	140	-	140	-	-	-
Unrealized gain (loss) on investments	2,605	-	2,605	(3,732)	-	(3,732)
Total non-operating activities	<u>475,883</u>	<u>(473,138)</u>	<u>2,745</u>	<u>465,975</u>	<u>(469,707)</u>	<u>(3,732)</u>
CHANGE IN NET ASSETS	<u>(194,632)</u>	<u>(47,655)</u>	<u>(242,287)</u>	<u>(259,816)</u>	<u>(185,105)</u>	<u>(444,921)</u>
NET ASSETS, beginning of year	<u>876,229</u>	<u>271,290</u>	<u>1,147,519</u>	<u>1,136,045</u>	<u>456,395</u>	<u>1,592,440</u>
NET ASSETS, end of year	<u>\$ 681,597</u>	<u>\$ 223,635</u>	<u>\$ 905,232</u>	<u>\$ 876,229</u>	<u>\$ 271,290</u>	<u>\$ 1,147,519</u>

See accompanying summary of accounting policies and notes to financial statements.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services	General and Administrative	Fundraising	Total Expenses
Affiliate operations	\$ 1,624,689	\$ -	\$ -	\$ 1,624,689
Contract services	315,186	42,096	12,082	369,364
Salary	32,100	24,000	100,735	156,835
Professional fees	50,983	10,200	-	61,183
Shipping expenses	56,848	-	-	56,848
Travel	36,906	306	9,779	46,991
Bank charges	8,426	(80)	18,143	26,489
Printing	-	-	23,978	23,978
Payroll taxes	5,181	3,728	14,490	23,399
Office expenses	7,856	2,979	10,691	21,526
Other	-	-	13,823	13,823
Advertising	-	-	9,623	9,623
Insurance	-	2,180	-	2,180
Fundraising fees	-	-	2,061	2,061
Total	<u>\$ 2,138,175</u>	<u>\$ 85,409</u>	<u>\$ 215,405</u>	<u>\$ 2,438,989</u>

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services	General and Administrative	Fundraising	Total Expenses
Affiliate operations	\$ 2,054,437	\$ -	\$ -	\$ 2,054,437
Contract services	268,582	46,800	23,300	338,682
Salary	24,000	24,000	89,443	137,443
Professional fees	4,229	2,000	-	6,229
Shipping expenses	80,768	-	-	80,768
Travel	56,860	1,416	13,653	71,929
Bank charges	10,461	2,994	20,106	33,561
Printing	-	-	14,745	14,745
Payroll taxes	1,836	1,836	6,877	10,549
Office expenses	7,642	4,301	7,784	19,727
Other	3,003	-	13,429	16,432
Advertising	-	-	5,252	5,252
Insurance	-	2,180	-	2,180
Fundraising fees	-	-	1,886	1,886
Total	<u>\$ 2,511,818</u>	<u>\$ 85,527</u>	<u>\$ 196,475</u>	<u>\$ 2,793,820</u>

See accompanying summary of accounting policies and notes to financial statements.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Statements of Cash Flows

	Year ended June 30,	
	2019	2018
Cash flows from operating activities:		
Cash received from patrons and donors	\$ 1,888,321	\$ 2,051,156
Interest received	20,706	19,576
Cash paid to suppliers and employees	<u>(2,204,552)</u>	<u>(2,486,871)</u>
Net cash used in operating activities	(295,525)	(416,139)
Cash flows from investing activities -		
Proceeds from sale of investments	<u>74,005</u>	<u>-</u>
Decrease in cash	(221,520)	(416,139)
Cash and cash equivalents at beginning of year	<u>802,277</u>	<u>1,218,416</u>
Cash and cash equivalents at end of year	<u>\$ 580,757</u>	<u>\$ 802,277</u>
Supplemental Disclosure of Noncash Activities -		
Noncash operating activities - noncash donations	<u>\$ 248,993</u>	<u>\$ 314,100</u>

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.

Summary of Accounting Policies

BASIS OF ACCOUNTING

The financial statements of Free the Kids, Inc. D/B/A Theo's Work, Inc. ("FTK") have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of FTK and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when stipulated purpose for which the resource was restricted has been fulfilled or both.

PUBLIC SUPPORT AND REVENUE

Contributions and grants are recognized as revenue when the donor makes an unconditional promise to give. All contributions are considered available for general operations unless the donor specifically restricts its use. Grants and other contributions of cash and other assets are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, FTK considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Market value is determined by quoted market prices. Unrealized gains and losses are included in the change in net assets. Investment income and gains are reported as increases in net assets without donor restrictions.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.

Summary of Accounting Policies (Continued)

FUNCTIONAL ALLOCATION OF EXPENSES

The Organization allocates expenses on a functional basis. The directly identifiable expenses are charged to program services, fundraising or management and general services. Expenses that are attributed to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Expenses, such as salaries, payroll taxes, professional services, office expenses, insurance and others are allocated based on the estimates of time and effort.

RECENT ACCOUNTING GUIDANCE

During the year ended June 30, 2019, FTK implemented ASU 2016-14, Financial Statements of Not-for-Profit Entities. Accordingly, the beginning balances of the donor restricted net asset categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, with donor restrictions. The ASU requires additional disclosures in the areas of liquidity and endowment funds, modifies the direct method presentation of the Statement of Cash Flows, and requires reclassification of investment expenses which are netted in investment return to include internal investment expenses. In addition, it requires any underwater portion of FTK's endowment funds to be adjusted from net assets without donor restrictions to net assets with donor restrictions.

MANAGEMENT ESTIMATES

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

INCOME TAXES

FTK is a non-profit corporation, which received tax exempt status under Section 501(c)(3) of the Internal Revenue Code and comparable status under State law; therefore, no income taxes are reflected in the financial statements.

ADVERTISING

FTK expenses advertising costs as incurred.

EVENTS OCCURRING AFTER REPORTING DATE

FTK has evaluated events and transactions that occurred between June 30, 2019 and July 1, 2020, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.

Notes to Financial Statements

NOTE 1 - OPERATIONS

Free the Kids, Inc. D/B/A Theo's Work, Inc. ("FTK") is a humanitarian, not-for-profit corporation supporting the humanitarian efforts of a project in Les Cayes, Haiti, Pwoje Espwa Sud (a Haitian NGO). Through the work in Haiti, FTK strives to (1) keep children with their families whenever possible, (2) develop each child mentally, socially, physically and spiritually through the age of 18, (3) prepare them to live independently through education and life skills, (4) provide an opportunity for economic viability through vocational training, and (5) provide the most exceptional adults with further academic and business opportunities.

Pwoje Espwa Sud was founded in 1997 by Father Marc Boisvert, OMI ("Father Marc"), a former U.S. Navy chaplain who had been assigned to work with Haitian refugees being held in Cuba. During the fiscal year ended June 30, 2018, Father Marc, as President of Pwoje Espwa Sud was responsible for managing the orphanage and providing the above services to the children. On December 1, 2018, Father Marc resigned his position on the Pwoje Espwa Sud NGO Board of Directors. New members of the board were installed to strengthen the governance of Pwoje Espwa Sud.

FTK is primarily supported by contributions, gifts and grants. The majority of these contributions, gifts and grants are used to fulfil the mission work in the Southern Department of Haiti. In addition, all assets donated by FTK to Pwoje Espwa Sud are owned by Pwoje Espwa Sud. FTK does not retain ownership of these assets.

Beneficiaries of Services

FTK limits its benefits, services and products to serving families and children in the Southern Department of Haiti. Recipients or beneficiaries are served through the project, Pwoje Espwa Sud, based upon the family and child's need for food, shelter, education and medical assistance.

Pwoje Espwa Sud is currently providing residential care to approximately 250 children, educational opportunities to approximately 1,200 children and an ongoing growing number of families are receiving various services that will enable them to preserve the family unit.

NOTE 2 - LIQUIDITY AND AVAILABILITY

FTK is supported by grants and contributions, some of which have donor restrictions. As part of FTK's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following reflects the FTK's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date.

Total current assets at June 30, 2019	\$ 606,682
Cash with donor restriction	<u>(223,635)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 383,047</u>

As part of FTK's liquidity management, long term investments and board designated net assets are available as needed for general expenditures.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS

Professional accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets.
 - Quoted prices for identical or similar assets or liabilities in inactive markets.
 - Inputs other than quoted prices that are observable for the asset or liability.
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy 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 assets measured at fair value.

Municipal bonds - valued at the closing price reported on the active market on which the security trades.

Long term investments at June 30, 2019 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Municipal bonds	\$ 286,695	\$ 320,706	\$ 34,011

Long term investments at June 30, 2018 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Municipal bonds	\$ 357,811	\$ 371,698	\$ 13,887

The following schedule summarizes investment returns for the year:

	June 30,	
	<u>2019</u>	<u>2018</u>
Net realized and unrealized gain (loss)	\$ 2,605	\$ (3,732)

During the year ended June 30, 2019, stocks and mutual funds were contributed to the organization and then sold. The value of the investments donated was \$20,268.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Notes to Financial Statements (Continued)

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of June 30, 2019 and 2018:

	June 30,	
	2019	2018
Infrastructure	\$ 66,415	\$ 48,651
Chapel	37,039	37,039
Houses for the poor	36,706	62,116
Girls housing	32,695	76,595
Playground	9,000	9,000
Scholarships	5,702	6,975
Agriculture	2,229	1,795
Mattresses	1,160	1,160
Other	32,689	27,959
Total net assets with donor restrictions	<u>\$ 223,635</u>	<u>\$ 271,290</u>

NOTE 5 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donor. The following net assets were released from restrictions during the years ended June 30, 2019 and 2018:

	June 30,	
	2019	2018
Infrastructure	\$ 296,963	\$ 45,510
Houses for the poor	85,410	81,750
Girl's housing	43,900	259,577
Scholarships	10,093	4,315
Agriculture	-	15,480
Mattresses	-	13,840
Generator	-	8,771
Other	36,772	40,464
Net assets released from restrictions	<u>\$ 473,138</u>	<u>\$ 469,707</u>

NOTE 6 - BOARD DESIGNATED FUND

The Board of Directors has designated amounts of net assets without donor restrictions as an operational reserve fund to support the mission of FTK and for future infrastructure needs resulting from Hurricane Matthew. Because this amount results from an internal designation and not donor-restricted, it is classified and reported as net assets without donor restrictions.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.

Notes to Financial Statements (Continued)

NOTE 6 - BOARD DESIGNATED FUND (Continued)

Appropriation and distribution of the Board designated fund is at the discretion of the Board of Directors. Board designated net assets were available for the following purposes as of June 30, 2019 and 2018:

Operational reserve fund	\$	325,000	\$	500,000
Infrastructure		<u>136,902</u>		<u>203,139</u>
Total board designated net assets	\$	<u>461,902</u>	\$	<u>703,139</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2019, the executive director of FTK served on the board of Pwoje Espwa Sud. The amount of direct support provided to Pwoje Espwa Sud by FTK was \$1,624,689 and \$2,054,437 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - CONCENTRATION OF CREDIT RISK

FTK maintains its cash in bank accounts at high credit quality financial institutions. The balances at times may exceed the federally insured limits.

NOTE 9 - NONCASH DONATIONS

Noncash donations include donations of food, supplies, stocks and mutual funds.

NOTE 10 - SUBSEQUENT DISSOLUTION

Shortly after Hurricane Matthew in 2016, FTK assisted onsite at Pwojè Espwa Sud (PES) in Les Cayes Haiti. During that time, FTK conducted a management inquiry about processes and procedures of PES. The inquiry, over the course of two fiscal years, discovered mismanagement of services and irregularities concerning the management of funds and supplies provided by FTK to PES. As a result of the inquiry, PES terminated several employees at the orphanage. PES also implemented new procedures and provided training for the remaining staff and new hires. PES feels that these steps will provide more accountability and transparency.

On December 1, 2018, Father Marc Boisvert, OMI, the founder of PES, resigned his position on the NGO Board of Directors for PES. New members of the board were installed to strengthen the governance of PES. As of April 20, 2019, FTK entered into a separation agreement with the founder of PES. FTK agreed to pay \$20,000 at the time of the separation and \$5,000 for the years ended June 30, 2020, 2021, and 2022 provided certain terms of the agreement are met.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.

Notes to Financial Statements (Continued)

NOTE 10 - SUBSEQUENT DISSOLUTION (Continued)

During the fiscal year ended June 30, 2019, FTK consulted with PES to restructure and expand their programs in order to:

- serve in the child's best interest through reunification and family strengthening,
- align with the expectations of the Haitian child welfare agency (IBESR), and
- join in advocacy with the international community for deinstitutionalizing children.

Given the extent of the mismanagement and irregularities discovered during the inquiry by FTK of PES, several board members resigned. This created vacancies on the board that FTK was unable to fill. Due to the inability to fill vacant positions, the remaining board voted on March 20, 2020 to dissolve the organization as of June 30, 2021. The board approved Overture Outreach International (OI) as the new funding and managing partner for PES. FTK management will work with OI to transition management and to inform donors of the transition.

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. As the global spread of COVID-19 continues, increased market volatility and economic uncertainties may materially impact the valuation of assets, liabilities, and stockholders' equity of the Company. There may be other financial or operational impact, though the extent of such impact is unpredictable at this time. The financial statements do not reflect any adjustments as a result of the subsequent increase in uncertainty.

NOTE 12 - RECLASSIFICATION

Certain balances in the 2018 financial statements have been reclassified to conform with the 2019 financial statements.