



**Financial Statements
Years Ended
June 30, 2018 and 2017**

**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.....	12-15

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

Organization and Business

STATE OF ORGANIZATION

New Jersey and North Carolina

OFFICERS

- Ben Abiles - Chairperson of the Board
- Ben Farley - Treasurer
- Jackie Wilson - Secretary

BOARD MEMBERS

- Neil Cohen
- Ken Graff
- Clifford Sethness
- William Foudray
- Jack Reynolds



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, 2018 and 2017 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, 2018 and 2017, 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
February 5, 2020

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

	June 30,	
	2018	2017
<u>ASSETS</u>		
CURRENT:		
Cash and cash equivalents	\$ 802,277	\$ 1,218,416
Accrued interest receivable	4,913	4,913
Contribution receivable	780	-
Prepaid expenses	7,799	-
	<u>815,769</u>	<u>1,223,329</u>
Total current assets	815,769	1,223,329
INVESTMENTS		
	<u>371,698</u>	<u>375,430</u>
	<u>\$ 1,187,467</u>	<u>\$ 1,598,759</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,265	\$ 691
Accrued payroll taxes	-	1,926
Deposits	36,683	3,702
	<u>39,948</u>	<u>6,319</u>
Total current liabilities	39,948	6,319
NET ASSETS:		
Unrestricted	173,090	636,045
Unrestricted - board designated	703,139	500,000
Temporarily restricted	271,290	456,395
	<u>1,147,519</u>	<u>1,592,440</u>
Total net assets	1,147,519	1,592,440
	<u>\$ 1,187,467</u>	<u>\$ 1,598,759</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, 2018		For the year ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 1,734,353	\$ 284,602	\$ 2,018,955	\$ 2,589,781	\$ 613,360	\$ 3,203,141
Contributions - non cash	314,100	-	314,100	1,031,975	-	1,031,975
Interest income	19,576	-	19,576	19,207	-	19,207
Total support and revenue	2,068,029	284,602	2,352,631	3,640,963	613,360	4,254,323
EXPENSES:						
Program services	2,511,818	-	2,511,818	3,006,524	-	3,006,524
General and administrative	85,527	-	85,527	74,842	-	74,842
Fundraising	196,475	-	196,475	178,352	-	178,352
Total expenses	2,793,820	-	2,793,820	3,259,718	-	3,259,718
CHANGE IN NET ASSETS FROM OPERATIONS	(725,791)	284,602	(441,189)	381,245	613,360	994,605
NON-OPERATING ACTIVITIES:						
Net assets released from restrictions	469,707	(469,707)	-	259,918	(259,918)	-
Realized gain (loss)	-	-	-	3,501	-	3,501
Unrealized gain (loss) on investments	(3,732)	-	(3,732)	(15,413)	-	(15,413)
Total non-operating activities	465,975	(469,707)	(3,732)	248,006	(259,918)	(11,912)
CHANGE IN NET ASSETS	(259,816)	(185,105)	(444,921)	629,251	353,442	982,693
NET ASSETS, beginning of year	1,136,045	456,395	1,592,440	506,794	102,953	609,747
NET ASSETS, end of year	\$ 876,229	\$ 271,290	\$ 1,147,519	\$ 1,136,045	\$ 456,395	\$ 1,592,440

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, 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
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
Office expenses	7,642	4,301	7,784	19,727
Other	3,003	-	13,429	16,432
Printing	-	-	14,745	14,745
Payroll taxes	1,836	1,836	6,877	10,549
Professional fees	4,229	2,000	-	6,229
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.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services	General and Administrative	Fundraising	Total Expenses
Affiliate operations	\$ 2,310,563	\$ -	\$ -	\$ 2,310,563
Hurricane Matthew Relief	410,980	-	-	410,980
Contract services	128,976	36,630	9,738	175,344
Salary	32,875	16,000	86,499	135,374
Shipping expenses	73,800	-	-	73,800
Bank charges	6,753	4,074	29,633	40,460
Travel	34,981	33	3,484	38,498
Printing	-	-	19,889	19,889
Office expenses	3,357	4,784	8,939	17,080
Payroll taxes	2,523	1,241	7,135	10,899
Professional fees	516	9,900	202	10,618
Other	-	-	8,001	8,001
Insurance	1,200	2,180	-	3,380
Fundraising fees	-	-	2,420	2,420
Advertising	-	-	2,412	2,412
Total	<u>\$ 3,006,524</u>	<u>\$ 74,842</u>	<u>\$ 178,352</u>	<u>\$ 3,259,718</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,	
	2018	2017
Cash flows from operating activities:		
Cash received from patrons and donors	\$ 2,051,156	\$ 3,206,843
Interest received	19,576	19,207
Cash paid to suppliers and employees	<u>(2,486,871)</u>	<u>(2,260,615)</u>
Net cash provided by (used in) operating activities	(416,139)	965,435
Cash flows from investing activities -		
Proceeds from sale of investments	-	46,233
Cash and cash equivalents at beginning of year	<u>1,218,416</u>	<u>206,748</u>
Cash and cash equivalents at end of year	<u><u>\$ 802,277</u></u>	<u><u>\$ 1,218,416</u></u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Increase (decrease) in net assets	<u>\$ (444,921)</u>	<u>\$ 982,693</u>
Adjustments to reconcile net cash provided by (used in) operating activities:		
Unrealized (gain) loss on investments	3,732	15,413
Realized (gain) loss on investments	-	(3,501)
Noncash donations of investments	-	(21,613)
Decrease (increase) in assets:		
Contribution receivable	(780)	
Prepaid expenses	(7,799)	
Increase (decrease) in liabilities:		
Accounts payable	2,574	(11,991)
Deposits	32,981	3,702
Accrued payroll taxes	<u>(1,926)</u>	<u>732</u>
Total adjustments	<u>28,782</u>	<u>(17,258)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (416,139)</u></u>	<u><u>\$ 965,435</u></u>
Supplemental Disclosure of Noncash Activities -		
Noncash operating activities - noncash donations	<u><u>\$ 314,100</u></u>	<u><u>\$ 1,031,975</u></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.

BASIS OF PRESENTATION

FTK conforms to professional standards for the presentation of net assets. These standards require resources to be classified for accounting and reporting purposes into three net asset categories. FTK classifies its funds for accounting and reporting purposes as either unrestricted, temporarily restricted or permanently restricted:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of FTK and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by FTK to use all or part of the income earned on any related investments for general or specific purposes.

PUBLIC SUPPORT AND REVENUE

Grants and other contributions of cash and other assets are reported as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted net assets.

FREE THE KIDS, INC. D/B/A THEO'S WORK, INC.
Summary of Accounting Policies (Continued)

FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2018 and February 5, 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 our 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 and 2017, Father Marc, as President of Pwoje Espwa Sud was responsible for managing the orphanage and providing the above services to the children.

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 - 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: <ul style="list-style-type: none">• 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. |

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

NOTE 2 - INVESTMENTS (Continued)

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, 2018 consisted of the following:

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

Long term investments at June 30, 2017 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Municipal bonds	\$ 357,811	\$ 375,430	\$ 17,619

The following schedule summarizes investment returns for the year:

	June 30,	
	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain (loss)	\$ (3,732)	\$ (11,912)

During the year ended June 30, 2017, stocks and mutual funds were contributed to the organization and then sold. The value of the investments donated was \$21,613.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30, 2018 and 2017:

	June 30,	
	<u>2018</u>	<u>2017</u>
Girls housing	\$ 76,595	\$ 296,171
Houses for the poor	62,116	63,865
Infrastructure	48,651	-
Chapel	37,039	27,039
Playground	9,000	9,000
Scholarships	6,975	5,000
Agriculture	1,795	15,508
Mattresses	1,160	10,000
Generator	-	8,771
Other	27,959	21,041
Total temporarily restricted net assets	<u>\$ 271,290</u>	<u>\$ 456,395</u>

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

NOTE 4 - 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, 2018 and 2017:

	June 30,	
	2018	2017
Girl's housing	\$ 259,577	\$ 144,028
Houses for the poor	81,750	91,135
Infrastructure	45,510	-
Agriculture	15,480	1,600
Mattresses	13,840	-
Generator	8,771	-
Scholarships	4,315	-
Intern support	-	5,750
Psychologist/Social Worker	-	1,594
Other	40,464	15,811
Net assets released from restrictions	<u>\$ 469,707</u>	<u>\$ 259,918</u>

NOTE 5 - BOARD DESIGNATED FUND

The Board of Directors has designated amounts of unrestricted net assets as an operational reserve fund to support the mission of FTK and for future infrastructure needs resulting from the hurricane. Since that amounts resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

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, 2018 and 2017:

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

NOTE 6 - REALATED PARTY TRANSACTIONS

During the year ended June 30, 2018, 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 \$2,054,437 and \$2,310,563 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 - 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.

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

NOTE 8 - NONCASH DONATIONS

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

NOTE 9 - SUBSEQUENT EVENTS

FTK conducted an internal inquiry of management and processes of Pwoje Espwa Sud. The internal inquiry discovered mismanagement of services by Pwoje Espwa Sud and irregularities by Pwoje Espwa Sud in the management of funds and supplies provided by FTK to Pwoje Espwa Sud. As a result of the inquiry, Pwoje Espwa Sud terminated several employees at the orphanage. Pwoje Espwa Sud has also implemented new procedures and provided training for the remaining staff and new hires. Pwoje Espwa Sud feels that these steps will provide more accountability and transparency at Pwoje Espwa Sud. FTK will work with Pwoje Espwa Sud to make continued improvements in management, services, controls and processes.

On December 1, 2018, Father Marc, the founder of Pwoje Espwa Sud, 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.

As of April 20, 2019, FTK entered into a separation agreement with the founder of Pwoje Espwa Sud. 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 by the founder.

NOTE 10 - RECLASSIFICATION

Certain balances in the 2017 financial statements have been reclassified to conform with the 2018 financial statements.