

DESTINATION IMAGINATION, INC.

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019**

DESTINATION IMAGINATION, INC.

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BAUM, SMITH & CLEMENS, LLP

CERTIFIED PUBLIC ACCOUNTANTS and BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Destination Imagination, Inc.

We have audited the accompanying financial statements of Destination Imagination, Inc., (a nonprofit organization), which are comprised of the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Destination Imagination, Inc., as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Baum, Smith & Clemens, LLP

Harleysville, PA
August 24, 2020

DESTINATION IMAGINATION, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019

ASSETS

Current	
Cash and cash equivalents	\$ 1,714,573
Accounts receivable	185,714
Inventory	22,779
Prepaid expenses and miscellaneous	12,354
Total current assets	<u>1,935,420</u>
Cash - restricted	14,025
Property and equipment, net	1,139,857
Prepaid - long term	97,239
	<u>97,239</u>
Total assets	<u><u>\$ 3,186,541</u></u>

LIABILITIES

Current	
Accounts payable	\$ 169,117
Accrued expenses	95,816
Other liabilities	63,056
Deferred revenue	3,772
Due to affiliates	14,025
	<u>14,025</u>
Total current liabilities	<u>345,786</u>

NET ASSETS

Without donor restrictions	
Undesignated	2,554,296
Board designated	58,750
Total without donor restrictions	<u>2,613,046</u>
With donor restrictions	<u>227,709</u>
Total net assets	<u>2,840,755</u>
Total liabilities and net assets	<u><u>\$ 3,186,541</u></u>

DESTINATION IMAGINATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Global finals	\$ 6,383,711	\$ -	\$ 6,383,711
Team registrations	1,424,160	-	1,424,160
Grants, contributions, and sponsorships	296,195	227,709	523,904
Affiliate license fee	9,100	-	9,100
Training and conferences	1,522	-	1,522
Interest income	10,140	-	10,140
Other income	70,774	-	70,774
Net assets, released from restrictions	115,785	(115,785)	-
Total support and revenue	8,311,387	111,924	8,423,311
Expenses			
Program services	6,491,094	-	6,491,094
Management and general	1,249,480	-	1,249,480
Fundraising	245,301	-	245,301
Total expenses	7,985,875	-	7,985,875
Change in operating net assets	325,512	111,924	437,436
Promotional sales - branded	375,487	-	375,487
Costs of branded promotional items	(182,117)	-	(182,117)
	193,370	-	193,370
Change in net assets	518,882	111,924	630,806
Net assets, beginning of year	2,094,164	115,785	2,209,949
Net assets, end of year	\$ 2,613,046	\$ 227,709	\$ 2,840,755

See Accompanying Notes to Financial Statements

DESTINATION IMAGINATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Direct cost				
Affiliate support and administration	\$ 28,261	\$ -	\$ -	\$ 28,261
Conference and bulk mail reimbursement	39,499	-	-	39,499
Creative Compass/other materials	32,043	19,639	-	51,682
Credit card fees	88,771	42,954	11,454	143,179
DI university	60,417	-	-	60,417
Global finals	4,412,996	-	-	4,412,996
Instant challenges	10,669	-	-	10,669
Licensee conference	86,469	-	-	86,469
Program materials/shipping/commissions	180,576	-	-	180,576
Team challenges	71,584	-	-	71,584
Total Direct cost	5,011,285	62,593	11,454	5,085,332
Staff expense				
Employee expense	43,504	23,694	5,614	72,812
Employee expense - outreach	3,705	-	-	3,705
Employee benefits and payroll taxes	112,214	54,298	14,480	180,992
Professional development	-	20,514	-	20,514
Retirement contribution	34,962	16,917	4,511	56,390
Salaries	1,024,992	495,964	132,257	1,653,213
Total Staff expense	1,219,377	611,387	156,862	1,987,626
Other operating expense				
Association memberships	4,287	-	-	4,287
Audit and legal fees	-	91,331	-	91,331
Board of trustees administration/travel	-	32,871	-	32,871
Building maintenance	-	26,874	-	26,874
Consultants	177,995	58,612	27,043	263,650
Depreciation	-	58,047	-	58,047
Fundraising	-	-	49,942	49,942
Insurance	67,747	41,523	-	109,270
Interest	-	7,165	-	7,165
IT costs	-	133,026	-	133,026
Miscellaneous	10,403	12,851	-	23,254
Office supplies	-	37,898	-	37,898
Other shipping	-	19,775	-	19,775
Utilities	-	55,527	-	55,527
Total Other operating expense	260,432	575,500	76,985	912,917
Totals	\$ 6,491,094	\$ 1,249,480	\$ 245,301	\$ 7,985,875

See Accompanying Notes to Financial Statements

DESTINATION IMAGINATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Cash flows from operating activities	
Change in net assets	\$ 630,806
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	58,047
Changes in assets and liabilities	
Accounts receivable	(6,744)
Inventory	20,784
Prepaid expenses and miscellaneous	151,164
Accounts payable	18,623
Accrued expenses	(143,848)
Other liabilities	41,652
Deferred revenue	1,682
Net cash provided by operating activities	<u>772,166</u>
Cash flows from investing activities	
Purchase of equipment	<u>(6,741)</u>
Net cash used by investing activities	<u>(6,741)</u>
Net change in cash	765,425
Beginning cash and cash equivalents	<u>949,148</u>
Ending cash and cash equivalents	<u><u>\$ 1,714,573</u></u>

Supplementary Disclosures of Cash Flows Information

Cash paid during the year for:	
Interest	\$ 7,165

DESTINATION IMAGINATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Organization

Destination Imagination, Inc. (the "Organization") is a non-profit organization exempt from income tax under section 501(c)(3) of the Internal Revenue Code. The Organization values and nurtures creativity. Through its activities, the Organization provides the fullest development of human, creative, intellectual, social, artistic and psychological ability by organizing and managing educational and human service programs. The Organization grants credits to members who are educational institutions, state affiliations, community groups, or foreign affiliates located worldwide. The Organization has an annual competition of teams to showcase their Challenge solutions which provides approximately ninety percent of its operating revenues.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of 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 have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and board of directors.

With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Donor restrictions are temporary in nature; those restrictions will be met by the passage of time or expenditures for a specified purpose. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained permanently.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities

The Organization has received no permanently restricted contributions.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's mission and programs. Nonoperating activities is limited to resources that generate revenue from the sale of the Organization's branded promotional items.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents.

DESTINATION IMAGINATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables are periodically reviewed by management for collectability. Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding receivables. Outstanding receivable balances are written off when they are deemed uncollectible. Management has determined that an allowance is not necessary at year end.

Inventory

Inventory consisting of awards, certificates, educational books, videos, and souvenirs is carried at the lower of cost or net realizable value determined by the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and depreciated on the straight-line basis over the estimated useful lives of the assets. Acquisitions of property and equipment and expenditures for repairs and betterments that materially prolong the useful lives of assets in excess of \$5,000 are capitalized and the cost of maintenance and repairs is expensed as incurred. Listed below are the estimated useful lives of the asset classes:

Building	40 years
Building Improvements	5 – 40 years
Furniture, fixtures and equipment	5 – 10 years

The carrying value of the property and equipment would be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable on an undiscounted basis. If such review were to indicate that the assets may be impaired, i.e. that the carrying amounts of the assets exceed the sum of their expected future cash flows on an undiscounted basis, the assets' carrying amounts are written down to updated estimated fair value. No impairment adjustments have been made during the year ended September 30, 2019.

Due to Affiliate

Due to affiliate represents corporate grant funding received by the Organization in which it is acting as an agent on behalf of one of its affiliates. These funds are also designated as restricted cash.

Board Designated Assets

The Organization's board has designated net assets without donor restrictions for scholarships for its programs.

Revenue Recognition

Global Finals' revenue consists of team registration fees for the Global Finals event. The revenue is recognized upon receipt of registration form. In the event that teams are able to obtain sponsors to cover the team fees, the fees are refunded.

Team registration revenue represents revenue from the sale of challenge materials. The challenge materials are provided in a digital format and the revenue is recognized at the point of sale, as the materials are immediately available for download.

Promotional sales revenue is recognized at the point of sale or, if ordered, when shipped. Payments received for items not yet shipped are included in deferred revenue.

Grants, contributions and sponsorships are recorded when received as net assets without donor restrictions or net assets with donor restrictions, depending on the absence or existence of any donor or sponsor imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions, if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restriction, depending on the nature of the restriction.

DESTINATION IMAGINATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Donations

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are performed by individuals with those skills, and would otherwise be purchased by the Organization. The Organization benefits from the many volunteers who provided services throughout the year that were not recognized as contributions in the financial statements because these services do not meet the recognition criteria.

Advertising

The Organization expenses the costs of advertising, sponsorships and exhibits as they are incurred.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of either the best estimate of management and the time spent on the function by employees. Employee benefits and payroll taxes are allocated based on the overall payroll expense allocation. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Tax Deferred Annuity Plan

The Organization maintains a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Organization. The Organization contributes a percentage of gross salaries for qualified employees to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code.

Income Taxes

The Organization qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a) of the Code.

The Organization is required to recognize, measure, classify, and disclose in the financial statements uncertain tax positions taken or expected to be taken in the Organization's tax returns. Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance concerning, 1) evaluating whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) determining whether a contribution received is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and for annual periods beginning after December 15, 2019 for entities that are resource providers, with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis. Management is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

DESTINATION IMAGINATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements continued

FASB has issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*. This standard will require that the cash flows statement explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash and cash equivalents when reconciling the beginning of the period and end-of the period total amounts shows on the statement of cash flows. This pronouncement is effective for fiscal years beginning after December 15, 2018.

The accounting standards FASB ASC Topic 606, *Revenue from Contracts with Customers*, provides guidance on the principles to report useful information to users of financial statements about the nature, timing and uncertainty of revenue from contracts with customers. The effective date of this standard has been delayed with an effective date for periods beginning after December 15, 2020, early implementation is permissible.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was August 24, 2020.

NOTE B: SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash in bank deposit accounts which at times exceed federally insured limits. No loss has been experienced in such accounts and the Organization does not believe it has significant credit risk on its cash balances.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2019:

Land	\$ 178,000
Buildings	1,084,108
Building improvements	126,666
Furniture, fixtures and equipment	<u>376,012</u>
	1,764,786
Less accumulated depreciation	<u>624,929</u>
	<u>\$ 1,139,857</u>

Depreciation expense for the year ended September 30, 2019 was \$58,047.

NOTE D: LINE OF CREDIT

The Organization has a \$900,000 revolving line-of-credit available from Fulton Bank of New Jersey. Advances are payable on demand and carry an interest rate equal to the prime rate (5.0% as of September 30, 2019.). This line-of-credit renews on an annual basis and is collateralized by property and equipment of the Organization. There was no outstanding balance as of September 30, 2019.

DESTINATION IMAGINATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE E: NET ASSETS WITH DONOR RESTRICTIONS

As of September 30, 2019, net assets with donor restrictions consisted of grants and contributions restricted for Global Finals and scholarships:

Destination Imagination Scholarships	\$ 25,000
DI – China	199,500
Other	<u>3,209</u>
	<u>\$ 227,709</u>

Temporarily Restricted Net Assets released for the year ended September 30, 2019 were as follows:

Purpose restrictions	<u>\$ 115,785</u>
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NOTE F: OTHER EXPENSE INFORMATION

	<u>Amount</u>
Advertising	\$ 51,682
Profit sharing expense	\$ 56,390

NOTE G: OPERATING LEASES

The Organization leases office equipment under an operating lease obligations. The leases expires November 2023.

Minimum future lease payments under non-cancellable operating leases having remaining terms in excess of one year as of September 30, 2019 are as follows:

<u>Years Ending</u> <u>September 30th</u>	
2020	\$ 13,032
2021	13,032
2022	11,632
2023	<u>1,772</u>
	<u>\$ 39,468</u>

Rent expense was \$13,032 for the year ended September 30, 2019.

NOTE H: COMMITMENTS AND CONTINGENCIES

The Organization has contracted to hold Global Finals through 2020 at the Kansas City Convention Center. Either party can terminate this contract. Under certain circumstances, cancellation fees would apply.

The Organization has an agreement with an entity to manage and coordinate events for the Organization. The services cover the Global Finals event in May 2019 and May 2020 (now 2021). The fee is a total of \$420,000 paid in monthly installments of \$21,000 through July 1, 2020. Additional event help, would be billed at cost. The expense for the year ending September 30, 2019 was \$210,000 for the pre-determined. contract.

DESTINATION IMAGINATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE I: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

To manage liquidity the Organization maintains a line of credit of \$900,000 with a bank that can be drawn upon as needed during the year to manage cash flow.

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because donor-imposed restrictions or board designations. Amounts available include cash and receivables.

	<u>Amount</u>
Current assets, excluding non-financial assets	\$ 1,900,287
Donor restricted and Board designated funds	<u>(286,459)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,613,828</u>

NOTE J: SUBSEQUENT EVENTS

The COVID-19 pandemic that has occurred since December 31, 2019 has caused business disruption throughout the United States. The impact of the COVID-19 outbreak on the Organization cannot be reasonably determined at this time. However, the pandemic did result in the cancellation of the live Global Finals Event scheduled for fiscal year ending September 30, 2020.

In April 2020, the Organization obtained a loan of \$377,753 through the Paycheck Protection Program. The interest rate is 1% and repayment will be in accordance with the regulations. The loan does contain a forgiveness provision that may impact the repayment requirement.