

SOS CHILDREN'S VILLAGES – USA, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2017 AND 2016

SOS CHILDREN'S VILLAGES – USA, INC.

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INDEPENDENT AUDITORS'S REPORT

Board of Directors
SOS Children's Villages – USA, Inc.
Washington, D.C., USA

We have audited the accompanying statement of financial position of SOS Children's Villages – USA, Inc. (a nonprofit organization) as of December 31, 2017, and the related statements of activities, statement of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 auditor's 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 SOS Children's Villages – USA, Inc. as of December 31, 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.

**Board of Directors
SOS Children's Villages – USA, Inc.
Washington, D.C., USA**

Report on Summarized Comparative Information

We have previously audited the nonprofit organization's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
June 1, 2018**

SOS CHILDREN'S VILLAGES – USA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 And 2016

| | Unrestricted | Temporarily | Permanently | Totals | |
|---|---------------------|-------------------|-------------------|---------------------|---------------------|
| | Operating | | | Restricted | Restricted |
| | Fund | | | | |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 1,013,158 | \$ — | \$ — | \$ 1,013,158 | \$ 1,427,607 |
| Short-term investments (Note 5) | 337,163 | — | — | 337,163 | 426,222 |
| Contributions receivable (Note 3) | 25,783 | 596,020 | — | 621,803 | 364,872 |
| Prepaid expenses and other assets | <u>272,760</u> | <u>—</u> | <u>—</u> | <u>272,760</u> | <u>237,883</u> |
| Total current assets | <u>1,648,864</u> | <u>596,020</u> | <u>—</u> | <u>2,244,884</u> | <u>2,456,584</u> |
| Notes Receivable (Note 4) | <u>519,076</u> | <u>—</u> | <u>—</u> | <u>519,076</u> | <u>523,042</u> |
| Long-Term Investments (Note 5) | <u>2,582,057</u> | <u>—</u> | <u>104,231</u> | <u>2,686,288</u> | <u>5,265,971</u> |
| Fixed Assets | | | | | |
| Furniture and equipment | 74,936 | — | — | 74,936 | 74,936 |
| Leasehold improvements | 363,427 | — | — | 363,427 | 363,427 |
| Computer equipment | 287,603 | — | — | 287,603 | 285,003 |
| Website | <u>51,044</u> | <u>—</u> | <u>—</u> | <u>51,044</u> | <u>51,044</u> |
| | 777,010 | — | — | 777,010 | 774,410 |
| Less accumulated depreciation | <u>(507,844)</u> | <u>—</u> | <u>—</u> | <u>(507,844)</u> | <u>(410,371)</u> |
| Fixed assets - net | <u>269,166</u> | <u>—</u> | <u>—</u> | <u>269,166</u> | <u>364,039</u> |
| Other Assets | | | | | |
| Cash surrender value of life insurance | 59,813 | — | — | 59,813 | 58,024 |
| Contributions receivable (Note 3) | 80,913 | 284,757 | — | 365,670 | 345,632 |
| Deposits | <u>52,298</u> | <u>—</u> | <u>—</u> | <u>52,298</u> | <u>52,298</u> |
| Total other assets | <u>193,024</u> | <u>284,757</u> | <u>—</u> | <u>477,781</u> | <u>455,954</u> |
| Total assets | <u>\$ 5,212,187</u> | <u>\$ 880,777</u> | <u>\$ 104,231</u> | <u>\$ 6,197,195</u> | <u>\$ 9,065,590</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 482,946 | \$ — | \$ — | \$ 482,946 | \$ 510,720 |
| Deferred lease benefit | 280,898 | — | — | 280,898 | 335,265 |
| Grants payable - affiliates | <u>2,849,284</u> | <u>—</u> | <u>—</u> | <u>2,849,284</u> | <u>3,912,276</u> |
| Total current liabilities | <u>3,613,128</u> | <u>—</u> | <u>—</u> | <u>3,613,128</u> | <u>4,758,261</u> |
| Total liabilities | <u>3,613,128</u> | <u>—</u> | <u>—</u> | <u>3,613,128</u> | <u>4,758,261</u> |
| Net Assets (Note 7) | <u>1,599,059</u> | <u>880,777</u> | <u>104,231</u> | <u>2,584,067</u> | <u>4,307,329</u> |
| Total liabilities and net assets | <u>\$ 5,212,187</u> | <u>\$ 880,777</u> | <u>\$ 104,231</u> | <u>\$ 6,197,195</u> | <u>\$ 9,065,590</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended December 31, 2017 With Summarized Information For December 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| | Operating Fund | | | 2017 | 2016 |
| Revenue | | | | | |
| Contributions | \$ 5,399,623 | \$ 4,719,380 | \$ — | \$ 10,119,003 | \$ 8,600,523 |
| Special event income, net | 71,552 | — | — | 71,552 | 126,384 |
| Investment income | 56,822 | — | — | 56,822 | 77,278 |
| Other income | 112,685 | — | — | 112,685 | 43,183 |
| Net assets released from restrictions (Note 7) | <u>4,514,609</u> | <u>(4,514,609)</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total revenue | <u>10,155,291</u> | <u>204,771</u> | <u>—</u> | <u>10,360,062</u> | <u>8,847,368</u> |
| Expenses | | | | | |
| Program expenses | | | | | |
| Children's villages & programs | 6,335,506 | — | — | 6,335,506 | 6,039,658 |
| Education and advocacy | <u>2,284,698</u> | <u>—</u> | <u>—</u> | <u>2,284,698</u> | <u>2,520,727</u> |
| Total program expenses | <u>8,620,204</u> | <u>—</u> | <u>—</u> | <u>8,620,204</u> | <u>8,560,385</u> |
| Supporting expenses | | | | | |
| Management and general | 1,561,560 | — | — | 1,561,560 | 1,586,215 |
| Fundraising | <u>1,901,560</u> | <u>—</u> | <u>—</u> | <u>1,901,560</u> | <u>2,752,179</u> |
| Total supporting expenses | <u>3,463,120</u> | <u>—</u> | <u>—</u> | <u>3,463,120</u> | <u>4,338,394</u> |
| Total expenses | <u>12,083,324</u> | <u>—</u> | <u>—</u> | <u>12,083,324</u> | <u>12,898,779</u> |
| Change in net assets | (1,928,033) | 204,771 | — | (1,723,262) | (4,051,411) |
| Net Assets | | | | | |
| Beginning of year | <u>3,527,092</u> | <u>676,006</u> | <u>104,231</u> | <u>4,307,329</u> | <u>8,358,740</u> |
| End of year | <u>\$ 1,599,059</u> | <u>\$ 880,777</u> | <u>\$ 104,231</u> | <u>\$ 2,584,067</u> | <u>\$ 4,307,329</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2017 With Summarized Information For December 31, 2016

| | PROGRAM SERVICES | | | SUPPORTING SERVICES | | | Totals | |
|-------------------------------------|----------------------------------|------------------------|------------------------|------------------------|---------------------|---------------------------|----------------------|----------------------|
| | Children's Villages And Programs | Education And Advocacy | Total Program Services | Management And General | Fund-Raising | Total Supporting Services | 2017 | 2016 |
| Salaries | \$ 629,089 | \$ 650,294 | \$ 1,279,383 | \$ 527,775 | \$ 548,980 | \$ 1,076,755 | \$ 2,356,138 | \$ 2,412,306 |
| Benefits | 138,902 | 143,584 | 282,486 | 116,532 | 121,214 | 237,746 | 520,232 | 506,390 |
| Staff Travel | 38,446 | 39,653 | 78,099 | 31,670 | 33,503 | 65,173 | 143,272 | 243,849 |
| Board of Director's Meetings | — | — | — | 652 | — | 652 | 652 | 8,494 |
| Office Expense | — | — | — | 29,088 | 51,961 | 81,049 | 81,049 | 150,179 |
| Postage and Delivery | — | 30 | 30 | 22,867 | 943 | 23,810 | 23,840 | 34,145 |
| Professional Fees and Services | 50,484 | 33,496 | 83,980 | 164,400 | 88,735 | 253,135 | 337,115 | 553,187 |
| Insurance | — | — | — | 39,680 | — | 39,680 | 39,680 | 38,125 |
| Office Rent and Storage | 69,181 | 71,513 | 140,694 | 58,039 | 60,371 | 118,410 | 259,104 | 258,844 |
| Telephone | — | — | — | 30,048 | 6,101 | 36,149 | 36,149 | 50,616 |
| Equipment Lease | — | — | — | 40,548 | — | 40,548 | 40,548 | 35,628 |
| Information Technology and Software | — | 44,953 | 44,953 | 85,341 | 65,720 | 151,061 | 196,014 | 192,261 |
| Depreciation | 26,026 | 26,903 | 52,929 | 21,834 | 22,711 | 44,545 | 97,474 | 130,516 |
| Membership Fees | 750,626 | — | 750,626 | — | 11,694 | 11,694 | 762,320 | 575,420 |
| Direct marketing appeals | — | — | — | — | 784,597 | 784,597 | 784,597 | 1,272,753 |
| Public relations promotion | — | 1,274,272 | 1,274,272 | 335,308 | 52,744 | 388,052 | 1,662,324 | 1,561,300 |
| Village and other support grants | 4,519,482 | — | 4,519,482 | — | — | — | 4,519,482 | 4,535,159 |
| Miscellaneous | 113,270 | — | 113,270 | 57,778 | 52,286 | 110,064 | 223,334 | 339,607 |
| | <u>\$ 6,335,506</u> | <u>\$ 2,284,698</u> | <u>\$ 8,620,204</u> | <u>\$ 1,561,560</u> | <u>\$ 1,901,560</u> | <u>\$ 3,463,120</u> | <u>\$ 12,083,324</u> | <u>\$ 12,898,779</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2017 And 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| <i>Cash flows from operating activities</i> | | |
| Change in net assets | \$(1,723,262) | \$(4,051,411) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | 97,474 | 130,516 |
| Realized gain on investments | — | (1,406) |
| Unrealized (gain) loss on investments | 16,379 | 6,878 |
| (Increase) decrease in | | |
| Contributions receivable | (276,969) | 638,663 |
| Note receivable | 3,966 | (15,000) |
| Prepaid expenses and other assets | (34,877) | 3,990 |
| Cash surrender value of life insurance | (1,789) | (2,286) |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | (27,774) | (37,911) |
| Income tax payable | — | (35,845) |
| Deferred lease benefit | (54,367) | (54,368) |
| Grants payable | <u>(1,062,992)</u> | <u>(349,729)</u> |
| Net cash used in operating activities | <u>(3,064,211)</u> | <u>(3,767,909)</u> |
| <i>Cash flows from investing activities</i> | | |
| Purchases of investments | (5,512,985) | (9,765,086) |
| Proceeds from sale of investments | 8,076,289 | 13,972,216 |
| Net change in short-term investments | 89,059 | 154,700 |
| Purchase of equipment | <u>(2,601)</u> | <u>(29,817)</u> |
| Net cash provided by investing activities | <u>2,649,762</u> | <u>4,332,013</u> |
| <i>Cash flows from financing activities</i> | | |
| Repayments of loan | <u>—</u> | <u>(149,838)</u> |
| Net cash used in investing activities | <u>—</u> | <u>(149,838)</u> |
| Net (decrease) increase in cash and cash equivalents | (414,449) | 414,266 |
| <i>Cash and cash equivalents</i> | | |
| Beginning of the year | <u>1,427,607</u> | <u>1,013,341</u> |
| End of the year | <u>\$ 1,013,158</u> | <u>\$ 1,427,607</u> |
| <i>Supplemental Disclosure</i> | | |
| Income taxes paid | <u>\$ —</u> | <u>\$ 30,719</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 And 2016

(1) NATURE OF ORGANIZATION

SOS Children's Villages – USA, Inc. (the "**Organization**") supports the effort of SOS Children's Villages International – both in the USA and around the globe. SOS Children's Villages International, a global federation, builds families for orphaned, abandoned and other vulnerable children in 134 countries. In the United States, villages are currently located in Florida and Illinois. Founded in 1949, we are the largest nonprofit federation in the world dedicated to the care of orphaned, abandoned and other vulnerable children. Through our family support and care programs, medical centers, schools and emergency relief efforts, SOS Children's Villages impacts the lives of millions of children and families.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The Organization prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

Income Taxes – The Organization has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "**Code**"), and has been classified as an organization, which is publicly supported under Section 509(a)(1) of the Code.

Management has reviewed the tax positions for each of the open tax years (2014 – 2016) or expected to be taken in the Organization's 2017 tax return and has concluded that there are not significant uncertain tax positions that would require recognition in the financial statements.

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

Cash and Cash Equivalents – For financial statement purposes, the Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk – The Organization occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification ("**ASC**") 825, "**Financial Instruments**", identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

Property and Equipment – Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets (3-10 years). The Organization capitalizes all property and equipment expenditures greater than \$2,000 with a useful life of greater than one year.

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

Net Assets – To ensure observance of restrictions placed on the use of available resources, the accounts are classified for accounting and reporting purposes into the following net asset groups:

Unrestricted – represents net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted – consists of grants and contributions received from donors who have specified that the funds be used to support specific programs.

Permanently Restricted – consists of contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions.

Temporarily Restricted Revenue – The Organization's policy is to report all donor restricted contributions as temporarily restricted revenue even if those restrictions are met in the same reporting period the contributions are received.

Grants Payable – The Organization records grants as liabilities upon approval by the Board of Directors. Grants payable are generally to affiliates of SOS-KDI and disbursed subsequent to the board approval and then upon the request of the affiliate.

Functional Allocation of Expenses – The costs of providing programs and supporting services are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(3) CONTRIBUTIONS RECEIVABLE

As of December 31, 2017 and 2016, contributions receivable are expected to be realized in the following periods:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|-------------------|-------------------|
| In one year or less | \$ 621,803 | \$ 364,872 |
| One to five years | <u>368,286</u> | <u>347,615</u> |
| Gross contributions receivable | 990,089 | 712,487 |
| Less: Present value discount | <u>(2,616)</u> | <u>(1,983)</u> |
| Net contributions receivable | <u>\$ 987,473</u> | <u>\$ 710,504</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(4) NOTES RECEIVABLE

In March 2015, the organization executed a loan to SOS Children's Villages Florida, Inc. an affiliate organization, in the amount of \$500,000. The loan carries interest at a rate of 3% and matures in March 2020. Principal and accrued interest amounted to \$519,076 and \$523,042 for the years ending December 31, 2017 and 2016, respectively. Outstanding principal and interest are not due until the loan matures in 2020; however, advance payments of interest and principal are permitted.

(5) INVESTMENTS

Short-term investments are recorded at market value and consist of the following at December 31:

| | <u>2017</u> | | <u>2016</u> | |
|--------------------|------------------|---------------------|------------------|---------------------|
| | <u>Cost</u> | <u>Market Value</u> | <u>Cost</u> | <u>Market Value</u> |
| Money Market Funds | <u>\$337,163</u> | <u>\$337,163</u> | <u>\$426,222</u> | <u>\$426,222</u> |

Long-term investments are recorded at market value and consist of the following at December 31:

| | <u>2017</u> | | <u>2016</u> | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Cost</u> | <u>Market Value</u> | <u>Cost</u> | <u>Market Value</u> |
| Money Market Funds | \$ 116,915 | \$ 116,915 | \$ 165,780 | \$ 165,780 |
| Common Stocks | — | — | 84,658 | 94,958 |
| Certificates of Deposit | 1,538,000 | 1,540,852 | 4,055,000 | 4,066,234 |
| Corporate Bonds | <u>1,015,000</u> | <u>1,028,521</u> | <u>932,452</u> | <u>938,999</u> |
| | <u>\$ 2,669,915</u> | <u>\$ 2,686,288</u> | <u>\$ 5,237,890</u> | <u>\$ 5,265,971</u> |

Investment income is comprised of the following for the year ended December 31:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|------------------|------------------|
| Interest and dividends | \$ 73,201 | \$ 82,750 |
| Realized / unrealized gain (loss) | <u>(16,379)</u> | <u>(5,472)</u> |
| | <u>\$ 56,822</u> | <u>\$ 77,278</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization utilizes various methods to measure the fair value of its assets on a recurring basis. United States generally accepted accounting principles establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Organization's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Organization's assets that are carried at fair value as of December 31, 2017 and 2016 are as follows:

| | 2017 | | | |
|-------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Money Market Funds | \$ 454,078 | \$ 454,078 | \$ — | \$ — |
| Common Stock | | | — | — |
| Certificates of Deposit | 1,540,852 | — | 1,540,852 | — |
| Corporate Bonds | <u>1,028,521</u> | <u>—</u> | <u>1,028,521</u> | <u>—</u> |
| Total Investments | <u>\$3,023,451</u> | <u>\$ 454,078</u> | <u>\$2,569,373</u> | <u>\$ —</u> |

| | 2016 | | | |
|-------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Money Market Funds | \$ 592,002 | \$ 592,002 | \$ — | \$ — |
| Common Stock | 94,958 | 94,958 | — | — |
| Certificates of Deposit | 4,066,234 | — | 4,066,234 | — |
| Corporate Bonds | <u>938,999</u> | <u>—</u> | <u>938,999</u> | <u>—</u> |
| Total Investments | <u>\$5,692,193</u> | <u>\$ 686,960</u> | <u>\$5,005,233</u> | <u>\$ —</u> |

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 or 2016.

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(7) NET ASSETS

TEMPORARILY RESTRICTED

Temporarily restricted net assets as of December 31, 2017 and 2016 consist of various programs that have been established with specific donor intentions for the use of the funds. The related activity for the years ended December 31, 2017 and 2016 was as follows:

| | Balance January 1, 2017 | Additions | Released | Balance December 31, 2017 |
|------------------------|--|---------------------|---------------------|--|
| International Sponsors | \$ — | \$ 1,573,481 | \$ 1,573,481 | \$ — |
| International Grants | 676,006 | 3,056,441 | 2,851,670 | 880,777 |
| SOS Florida | — | 31,285 | 31,285 | — |
| SOS Illinois | — | 58,173 | 58,173 | — |
| | <u>\$ 676,006</u> | <u>\$ 4,719,380</u> | <u>\$ 4,514,609</u> | <u>\$ 880,777</u> |

| | Balance January 1, 2016 | Additions | Released | Balance December 31, 2016 |
|------------------------|--|---------------------|---------------------|--|
| International Sponsors | \$ — | \$ 1,376,100 | \$ 1,376,100 | \$ — |
| International Grants | 1,227,039 | 2,297,836 | 2,848,869 | 676,006 |
| SOS Florida | — | 143,994 | 143,994 | — |
| SOS Illinois | — | 64,828 | 64,828 | — |
| | <u>\$ 1,227,039</u> | <u>\$ 3,882,758</u> | <u>\$ 4,433,791</u> | <u>\$ 676,006</u> |

Total releases from restrictions were \$4,514,609 in 2017 and \$4,433,791 in 2016, respectively, and were related to programmatic activities of the Organization.

PERMANENTLY RESTRICTED

Permanently restricted net assets are available for the following purpose:

| | 2017 | 2016 |
|---|------------------|------------------|
| Investment in perpetuity, the income from which is expendable to support any activity of the organization | <u>\$104,231</u> | <u>\$104,231</u> |

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(8) SPECIAL EVENTS

The organization reports expenses incurred in holding special events net of the contributions generated from such events. During 2017 gross receipts of \$71,552 were received in advance of a special event to be held in 2018. The gross receipts from special events in 2016 were \$237,193 net of direct expenses of \$110,809.

(9) COMMITMENTS

Lease

The Organization has a non-cancelable lease agreement for office space that expires in February 2023. The lease is subject to adjustments for escalations and certain operating expenses. Rent expense, including operating charges and real estate expense, amounted to approximately \$259,000 for the years ended December 31, 2017 and 2016, respectively.

Approximate future minimum rental payments on the office space are as follows:

Year Ending December 31,

| | |
|------------|--------------------|
| 2018 | \$ 330,900 |
| 2019 | 339,100 |
| 2020 | 347,600 |
| 2021 | 356,300 |
| 2022 | 265,200 |
| thereafter | <u>62,000</u> |
| | <u>\$1,701,100</u> |

Shared Treasury Services

Effective December 31, 2016, the Organization entered into an arrangement with SOS-KDI Shared Treasury Services (“STS”) to manage grant funds transferred with the objective of mitigating financial risks to safeguard SOS-KDI funding obligations. Under the terms of this arrangement, the Organization commits to an annual budget of fund transfers that include sponsorships and other child money gifts. Such transfers are invested in trust with funds of other affiliated entities and remain the property of the Organization until it is disbursed to the intended recipient. Each participant of the trust is allocated its share of foreign exchange gains and losses, interest, and bank charges. As of December 31, 2017, the Organization had a receivable balance of approximately \$76,000 which may be used to offset future transfers. This balance is included in prepaid expenses and other assets on the statement of financial position.

(10) PENSION PLAN

The Organization maintains a 403(b) Defined Contribution Plan (the “Plan”) for all employees who have obtained a minimum of six months of service. Eligible employees receive a 5% contribution to the Plan on behalf of the Organization. Pension expense for the years ending December 31, 2017 and 2016 was approximately \$101,000 and \$106,000, respectively. Additionally, there was no discretionary contribution for the years ended December 31, 2017 and 2016.

SOS CHILDREN'S VILLAGES – USA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(11) RELATED PARTIES

During 2016, fees of approximately \$41,000 were paid to an executive search firm in which a member of the board of directors is a partner.

Additionally, the organization has \$127,000 and \$104,000 in pledges receivable from members of the board of directors as of December 31, 2017 and 2016, respectively.

(12) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, June 1, 2018, have been evaluated in the preparation of the financial statements.