

KARAM FOUNDATION, NFP

FINANCIAL STATEMENTS

DECEMBER 31, 2016

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT.....	3–4
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FINANCIAL STATEMENTS

Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9–13



INDEPENDENT AUDITORS' REPORT

Board of Directors
Karam Foundation, NFP
Lake Forest, Illinois

We have audited the accompanying financial statements of KARAM FOUNDATION, NFP (an Illinois nonprofit Foundation), which comprise the statement of financial position as of December 31, 2016, 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 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 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 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 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 KARAM FOUNDATION, NFP as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Ward + Davis LLP

October 18, 2017

STATEMENT OF FINANCIAL POSITION

As of December 31, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 1,770,770
Contributions Receivable	166,444
Prepaid Expenses	39,030
Total Current Assets	<u>1,976,244</u>

PROPERTY AND EQUIPMENT,

net of Accumulated Depreciation of \$3,177	83,012
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\$ 2,059,256
LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 28,068
Accrued Payroll	17,414
Grants Payable	289,160
Total Current Liabilities	<u>334,642</u>

NET ASSETS

Unrestricted	1,203,947
Temporarily Restricted	520,667
	<u>1,724,614</u>

\$ 2,059,256

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Grants and Contributions	\$ 1,488,763	\$ 1,664,232	\$ 3,152,995
Special Event Revenue			
Gross Event Revenues	75,400		75,400
Less: Direct Expenses	(26,433)		(26,433)
Net Special Events	48,967		48,967
Product Sales,			
net of Cost of Sales of \$28,278	12,349		12,349
Miscellaneous Income	205		205
	1,550,284	1,664,232	3,214,516
Net Assets Released from Restriction	1,150,333	(1,150,333)	—
Total Support and Revenues	2,700,617	513,899	3,214,516
FUNCTIONAL EXPENSES			
Program Services	1,780,430		1,780,430
Support Services			
Management and General	163,810		163,810
Fundraising	127,840		127,840
Total Expenses	2,072,080		2,072,080
CHANGE IN NET ASSETS	628,537	513,899	1,142,436
Net Assets, Beginning of Year,			
as Previously Reported	647,410	6,768	654,178
Prior Period Adjustment	(72,000)		(72,000)
Net Assets, Beginning of Year, as Adjusted	575,410	6,768	582,178
NET ASSETS, ENDING	\$ 1,203,947	\$ 520,667	\$ 1,724,614

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services				Supporting Services			
	Innovative Education Program	Smart Aid Program	Sustainable Development Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and Wages.....	\$ 86,171	\$ 31,956	\$ 12,536	\$ 130,663	\$ 49,384	\$ 73,017	\$ 122,401	\$ 253,064
Payroll Taxes	6,216	2,305	904	9,425	3,562	5,267	8,829	18,254
Supplies.....	59,432	1,181	16,267	76,880	—	—	—	76,880
Grants.....	427,050	270,686	—	697,736	—	—	—	697,736
Assistance to Individuals.....	—	690,153	—	690,153	—	—	—	690,153
Scholarships.....	25,742	—	—	25,742	—	—	—	25,742
Professional Fees.....	33,122	3,680	891	37,693	53,969	19,797	73,766	111,459
Travel.....	18,341	1,520	—	19,861	2,430	3,023	5,453	25,314
Meetings and Conferences.....	9,118	9,118	—	18,236	3,081	1,533	4,614	22,850
Advertising and Marketing.....	—	—	—	—	23,508	1,672	25,180	25,180
Bank and Credit Card Fees.....	—	—	—	—	4,770	5,025	9,795	9,795
Dues and Subscriptions.....	3,845	3,845	—	7,690	911	—	911	8,601
Information Technology.....	—	23,750	—	23,750	59	—	59	23,809
Office Expenses.....	198	3,526	—	3,724	9,970	28	9,998	13,722
Miscellaneous.....	170	6,163	—	6,333	7,412	1,326	8,738	15,071
Postage, Freight and Delivery..	—	—	—	—	91	5,624	5,715	5,715
Rent Expense.....	3,369	—	—	3,369	2,355	—	2,355	5,724
School Transportation.....	29,175	—	—	29,175	—	—	—	29,175
Venue Rentals.....	—	—	—	—	—	11,528	11,528	11,528
Depreciation.....	—	—	—	—	2,308	—	2,308	2,308
TOTALS	\$ 701,949	\$ 1,047,883	\$ 30,598	\$ 1,780,430	\$ 163,810	\$ 127,840	\$ 291,650	\$ 2,072,080

See accompanying notes.

STATEMENT OF CASH FLOWSFor the Year Ended December 31, 2016CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	<u>\$ 1,142,436</u>
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Adjustments to Reconcile Change in Net Assets to	
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Net Cash Provided by Operating Activities	
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Depreciation	2,308
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Increase in Assets	
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Contributions Receivable	(27,082)
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Prepaid Expenses	(39,030)
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Increase in Liabilities	
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Accounts Payable	4,816
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Accrued Payroll	10,959
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Grants Payable	<u>217,160</u>
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Total Adjustments	<u>169,131</u>
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Net Cash Provided by Operating Activities	1,311,567
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	<u>(81,743)</u>
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NET INCREASE IN CASH	1,229,824
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Cash, Beginning	<u>540,946</u>
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CASH, ENDING	<u><u>\$ 1,770,770</u></u>
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NOTES TO FINANCIAL STATEMENTS

NATURE OF FOUNDATION

KARAM FOUNDATION, NFP (the “Foundation”) was incorporated on July 11, 2007 and is a non-profit corporation dedicated to helping people help themselves. The Foundation seeks to restore the dignity and quality of life for people affected by conflict by eliminating barriers to success through innovative education, community-driven smart aid, and sustainable entrepreneurial development. The majority of the Foundation’s programs are conducted in Syria and Turkey. The Foundation’s primary source of revenues are grants and contributions.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Foundation’s financial statements. The financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

BASIS OF ACCOUNTING

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Revenue is recognized when earned and expenses are recognized as incurred.

FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Codification topic related to “Financial Statements of Not-for-Profit Organizations.” This guidance requires the Foundation to report information regarding its financial position and activities, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations plus those resources for which temporarily donor-imposed stipulations have been satisfied. Unrestricted net assets may otherwise be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets – Net assets whose use by the Foundation is subject to donor-imposed stipulations that could be fulfilled either by actions of the Foundation, pursuant to those stipulations and/or that expire by the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions have been met.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the resources be maintained permanently by the Foundation. Investment income, including realized and unrealized gains and losses, are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). At December 31, 2016, the Foundation had no permanently restricted net assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**FINANCIAL STATEMENT PRESENTATION (Continued)**

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

RECOGNITION OF SUPPORT, RECEIVABLE AND REVENUES

The Foundation accounts for contributions received and unconditional promises to give under the provisions of the FASB Codification topic related to contributions made and received. In accordance with the Codification, contributions are recognized as support revenue when received. Unconditional promises to give are recognized when received at the estimated present value of future cash flows, net of allowances. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. 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. Based on managements' assessment of the individual outstanding balances and taking into consideration the age of past due accounts, an assessment of the ability to pay, as well as current relationships, management considers contributions receivable to be fully collectible at December 31, 2016. Accordingly, no allowance for doubtful accounts for uncollectible contributions receivable is required.

DONATED GOODS AND SERVICES

Donated services are recognized as revenues at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. Donated goods are recorded at their estimated fair value at the date of donation. Donated goods and professional services for the year ended December 31, 2016 were not recorded as they were not deemed material to the financial statements.

PROPERTY AND EQUIPMENT

Property and equipment purchases of \$500 or more are recorded at cost or fair value if donated and are depreciated over their estimated useful lives of five years on a straight-line basis. Repairs and maintenance are charged to expense when incurred.

GRANTS PAYABLE

The Foundation records a grant payable and a corresponding grant expense when an unconditional commitment is approved by the Foundation to fund various innovative education and smart aid projects of grantees.

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 assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing various programs and other activities are presented on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited, based on direct charges or appropriate methods determined by management.

CONCENTRATION OF CREDIT RISK

The Foundation's cash balances, at times, may exceed federally-insured limits. The Foundation has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash.

INCOME TAX STATUS

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and applicable state law.

The Foundation has adopted the guidance in the FASB Codification topic related to uncertainty in income taxes which prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that the Foundation has taken or expects to take in its tax returns. Under the guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is "more likely than not" that it is sustainable, based on its technical merits. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. The Foundation believes that it has appropriate support for the positions taken on its returns.

NOTE 2—FUNCTIONAL CURRENCY, FOREIGN CURRENCY TRANSLATION AND CURRENCY EXCHANGE RATE EXPOSURE

Based on the dominant role of the U.S. currency in the funding of the Foundation's programs and other factors, management considers the U.S. dollar to be the Foundation's functional currency. As such, the Foundation's monetary assets and liabilities held in foreign currencies are remeasured using the current rate at the balance sheet date, while nonfinancial assets and liabilities are remeasured using historical exchange rates.

Revenues and expenses that represent the allocations of historical balances, such as depreciation expense, are remeasured using the same historical exchange rates, as those of the underlying items on the balance sheet. The remaining revenues and expenses are remeasured for practical purposes using the monthly average exchange rate.

The Foundation regularly transfers significant amounts of cash from its domestic accounts to foreign petty cash accounts held in both U.S. and the local currencies of Turkey and Syria to cover expenses of operations in those countries.

The Foundation has other assets and liabilities originally denominated in these currencies as well. These results in an exposure to currency exchange losses at the time assets are disposed of and liabilities are settled due to currency exchange rate fluctuations.

NOTES TO FINANCIAL STATEMENTS

NOTE 3—PROPERTY AND EQUIPMENT

Computers and Software.....	\$ 18,384
Furniture and Equipment.....	3,006
Vehicles	11,812
Construction in Progress.....	<u>52,987</u>
	86,189
Less Accumulated Depreciation	<u>3,177</u>
	<u>\$ 83,012</u>
Depreciation Expense.....	<u>\$ 2,308</u>

NOTE 4—TEMPORARILY RESTRICTED NET ASSETS

Temporary restricted net assets as of December 31, 2016 are restricted for the following:

Emergency Aid for Syria	\$ 288,993
Sponsor A Family	144,837
Higher Education.....	<u>86,837</u>
Total.....	<u>\$ 520,667</u>

Temporarily restricted contributions and grants of \$1,150,333 during 2016 were released from contributors and grantors restrictions by incurring expenses satisfying the purpose restrictions.

NOTE 5—RELATED PARTY TRANSACTIONS

Contributions from officers and members of the Board of Directors amounted to \$101,305 for the year ended December 31, 2016.

NOTE 6—OPERATING LEASES

In July 2016, the Foundation signed a seventeen-month lease agreement starting in August 2016 for its headquarters in Lake Forest, Illinois. The monthly rent was \$471 per month. In January 2017, the rent automatically increases by 3%. The rent expense in 2016 was \$2,355.

The Foundation entered into a three-year lease agreement starting August 1, 2016 with the option to extend the lease to five years for the Karam House in Reyhanli, Turkey. The annual rent was 24,000 Turkish lira which approximates \$6,800. The Karam House is a community innovation workplace for Syrian Refugees Youth where they can learn competitive skills in science, technology, engineering arts and mathematics. The rent expense in 2016 was \$3,369.

Minimum rental commitments under non-cancelable lease agreements are as follows:

Year Ending June 30	
2017	\$ 12,628
2018	6,806
2019	<u>3,971</u>
	<u>\$ 23,405</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7—PRIOR PERIOD ADJUSTMENT

During 2015, the Foundation committed to a program grant payable to another organization. The entire grant expense was not properly recorded in 2015 and a grant payable liability for the unpaid portion as of December 31, 2015 was not properly established. Instead, the Foundation recorded the grant expense when paid in 2016. As a result, a prior period adjustment was recorded to beginning unrestricted net assets as of January 1, 2016 to reduce net assets for the unrecorded grant payable. The correction also resulted in a \$72,000 reduction of 2016 grants expense.

NOTE 8—SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2017, the date which the financial statements were available for issue. There are no subsequent events which require disclosure.