



THE YEAR IN REVIEW

DESTINATION IMAGINATION 2016 ANNUAL REPORT





VISION & MISSION

VISION

To be the global leader in teaching the creative process from imagination to innovation.

MISSION

To develop opportunities that inspire the global community of learners to utilize diverse approaches in applying 21st century skills (Creativity, Collaboration, Communications, and Critical Thinking).

The Destination Imagination program is a fun, hands-on system of learning that fosters students' creativity, courage and curiosity through open-ended academic Challenges in the fields of STEM (science, technology, engineering and mathematics), fine arts and social entrepreneurship/service learning. Our participants learn patience, flexibility, persistence, ethics, respect for others and their ideas, and the collaborative problem solving process. Teams may showcase their solutions at a tournament.

2016 TEAM COUNTS



25
STAFF



38,000
VOLUNTEERS



150,040
PARTICIPANTS



STORIES FROM OUR COMMUNITY

From the U.S. to Qatar, DI teams across the globe are learning the skills needed to thrive in the future workforce and are working hard to make the world a better place. Check out some of their innovative Challenge solutions.



UNIDRAGONS – MEXICO

For their Project Outreach Challenge, team Unidragons, from Monterrey, Mexico, chose to address verbal bullying in their school. Through memes, they created clever and powerful anti-bullying messages, such as “I am unique, not different,” designed to get students to think differently and prevent them from bullying other students in their school. In addition, the team created a website for their anti-bullying project and set up a classroom activity called “Smart Words,” where students were asked to come up with respectful, non-aggressive responses to help diffuse a bullying incident. More than 20 classrooms participated in the activity and nearly 200 new ideas were submitted.



THE CREW – UNITED STATES

Last fall, the Crew DI team heard about refugees in the news and learned that they lived near the fifth largest refugee city in the nation, Lakewood, Ohio. The Crew contacted Lakewood Schools to find out how they could help the large refugee population, especially the kids. They learned that many of the refugee students receive free breakfasts and lunches, but worried that the kids wouldn't have food to eat over the two-week winter holiday break and decided to raise money to help those students and their families. The Crew raised more than \$700 through a fundraiser and delivered the money and donated fruit baskets to local refugee families from Burma and Iraq.



BEDOUINS WITH A BEAT – SAUDI ARABIA

For their Engineering Challenge, team Bedouins with a Beat, from Saudi Arabia, had to design and build a structure that could support as much weight as possible and was a musical instrument. The team created a ukulele, which was used to perform a musical solo during their presentation. The all-girl Engineering team was the first team from Saudi Arabia to compete at Global Finals.



ALUMNI STORIES

Many of our alumni credit DI for success in school, careers and beyond.



MICHAEL BRIDGMAN

Michael Bridgman is the co-founder and CTO of MajorMega, an interactive studio specializing in experiential marketing. Since launching MajorMega, Michael has created 3-D behind-the-scenes experiences for Justin Timberlake, organized contests for Michael Jackson, and designed video games for Katy Perry. One of Michael's most recent projects for National Geographic involved integrating virtual reality (VR) into a NASA anti-gravity treadmill to simulate a walk on Mars' surface, and integrating VR into the world's first "cable coaster" to simulate landing on Mars.



ALEX HSU

Alex Hsu is a software engineer who holds a Master's Degree in Electrical Engineering and Computer Science from MIT. While at MIT, Alex traveled to Taiwan to present a software program that she helped develop, and spent two summers as an intern with DreamWorks Animation in California, where she created proprietary software. Alex is currently a software engineer for GameChanger Media. GameChanger created a mobile app that allows youth sports coaches to keep scores and statistics digitally.



YALE SHAW

In 2015, Yale Shaw, won an international award for his design of a life-saving epinephrine auto-injector. In addition to creating a smaller, sleeker design to help eliminate social stigma, his innovative device can trigger its smartphone-integrated application to notify 911 emergency services of the user's exact location, allergy susceptibility, and personal information. In 2016, Yale earned his master's degree in industrial and product design at the Academy of Art University in San Francisco, California.



OUR SPONSORS & PARTNERSHIPS

We cannot fulfill our mission without the generosity of the world's most innovative companies.



NASA TAKES STUDENTS ON A JOURNEY TO MARS

NASA has been a longtime collaborator with Destination Imagination, inspiring the next generation of innovators who are right here at DI. For Global Finals 2016, NASA created an exhibit designed around the theme of survival on Mars. Expanding on the movie "The Martian," students had the opportunity to explore six different interactive stations to complete challenges, including creating water on Mars, growing food and communicating with Earth. Students also had the opportunity to participate in a Q&A with former astronaut, Dottie Metcalf-Lindenburger.



KIDS LEARN COMPUTER PROGRAMMING THANKS TO ORACLE ACADEMY

In February 2016, DI collaborated with Oracle Academy on the Dear Hero challenge to get more students interested in computer science. Using Oracle Academy's Alice 3 software, students learned the basics of computer programming to create a thank-you message for their personal hero. The winning team of students from California was invited to Global Finals 2016 to present their winning video to more than 16,000 attendees. In addition to the challenge, Oracle Academy hosted eight computer science skills workshops for participants.



FORD FOSTERS STEAM INNOVATION AT GLOBAL FINALS

At Global Finals 2016, Ford partnered with Destination Imagination on Try DI: Build Your Ford of the Future, a public event designed to foster STEAM-based learning and challenge families to rethink the future of driving. More than 300 students and parents participated in the event, using their creative thinking skills to build a prototype of their Ford of the Future idea. Students then had the opportunity present their idea to a panel of Ford Innovation Experts. In addition to the Try DI event, Ford hosted the Escape the Garage exhibit at the Global Finals Innovation Expo. Teams had to solve puzzles and race against the clock to Escape the Garage, designed and hosted by Ford.



2016 SPECIAL EVENTS & PROJECTS

DI collaborates on special projects and events year-round to foster creative learning around the globe.



EDUCATORS AND DI VOLUNTEERS COME TOGETHER FOR A FOUR-DAY EVENT TO REIMAGINE LEARNING

In July 2016, more than 300 educators and Destination Imagination volunteers from around the world gathered at the U.S. Space & Rocket Center® in Huntsville, Alabama for DI's Ignite Innovative Education Summit. Over the four-day event, attendees had the opportunity to hear from notable keynote speakers, including XPRIZE co-founder, Gregg Maryniak, participate in educational workshops, network and grow their skill sets.



DI TEAMS FROM 8 COUNTRIES PARTICIPATE IN THE THIRD ANNUAL INTERNATIONAL INVITATIONAL

In February 2016, Destination Imagination Qatar hosted the third annual International Invitational in Doha, Qatar. Twelve international DI teams from the United States, Turkey, Poland, Saudi Arabia, Morocco, Jordan and the United Arab Emirates attended to participate in a 24-hour Extreme Challenge. For the Extreme Challenge, teams were given a set of materials and had 24 hours to research, plan, design and build a model of a creativity and innovation center that was inspired by Qatari architecture and could withstand the winds of a simulated sandstorm.



DI JOINS RESEARCH CONSORTIUM TO HELP CLOSE THE STEM GAP

This past year, Destination Imagination formed a research consortium with the National Girls Collaborative (NGC), the National Alliance for Partnerships in Equity (NAPE) and the Educational Research Center of America (ERCA). The consortium collaborated on a research project to help students, families, teachers and guidance counselors better understand students' perspectives on STEM careers, as well as to identify opportunities, challenges, and promising practices for leveraging equity to meet STEM workforce needs.



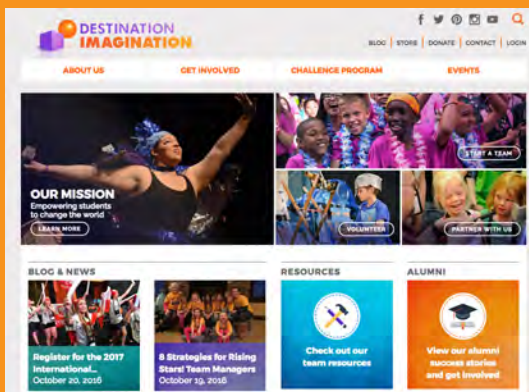
NEW RESOURCES

New resources enhanced customer and participant experiences in 2016.



NEW APP BROUGHT STEAM LEARNING TO STUDENTS' FINGERTIPS

In June 2016, DI released its first-ever Instant Challenge app, available for iOS and Android devices. The Instant Challenge Shaker app provides hundreds of short STEAM-based activities that allow students to use their imagination, teamwork skills and a few everyday materials to see how innovative they can be.



DI WEBSITE GOT BRAND NEW LOOK AND FEEL

In April 2016, DI launched its new, mobile-optimized website, which adapts to any device. From finding tournament dates to viewing team resources to reading the blog, the new website has a streamlined navigation and was designed to improve the experience for customers.



NEW PROMO VIDEO GAVE STUDENTS AN INSIDE LOOK AT THE UPCOMING SEASON

For the 2015-16 Team Challenge season, DI created a promotional video to complement the release of the Team Challenges. The video featured DI participants and was designed to inspire young people to engage their innate curiosity while learning about science, engineering, automotive design, theatrical techniques, social entrepreneurship and more.



GLOBAL FINALS 2016

More than 17,000 people gathered in Knoxville, Tennessee to attend the world's largest celebration of creativity.



HUNDREDS GATHERED FOR SPECIAL EVENING IN WORLD'S FAIR PARK

At Global Finals, participants enjoyed an evening of food, fun and dancing at the first-ever Evening Under the Stars event. The event included an exclusive performance by world-renowned percussive dance group, Step Afrika!, as well as a Battle of the DJs.



STUDENTS GRADUATED IN DI FASHION

At every Global Finals, high school and college students who couldn't walk in their own graduation ceremony are treated to a special ceremony. At this year's ceremony, DI's 2016 Valedictorian, Zayna Pieper, challenged students to live life without limits and without restricting their creativity in all aspects of life. Graduating seniors also received inspirational advice from Dr. Roosevelt Johnson, NASA's deputy associate administrator for education.



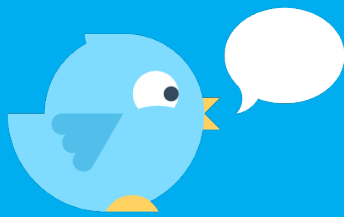
STUDENTS TOOK A TRIP AROUND THE GLOBE WITHOUT LEAVING THE UT CAMPUS

There's a reason why it's called Global Finals. At the International Block Party, students and families had the opportunity to immerse themselves in different cultures, enjoying sights, sounds and tastes from around the world.



SOCIAL MEDIA

Destination Imagination's online community is more than 43,000 strong and continues to grow year after year.



TWITTER
grew by 25%
(1,535 new followers)



PINTEREST
grew by 27%
(367 new followers)



INSTAGRAM
grew by 35%
(1,138 new followers)

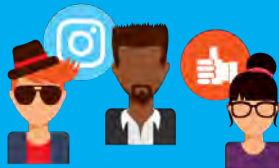


FACEBOOK
grew by 27%
(6,520 new followers)

From students to sponsors, thousands took to social media to showcase their experience at Global Ffinals 2016—the world's largest celebration of creativity.



5,715
number of times
#GlobalFinals16 was used



12,000
social media posts
about Global Finals



115,810
visitors to the Global
Finals website



37,000
YouTube views





SPECIAL THANKS

Thank you to our Affiliate Directors, Board of Trustees and staff whose commitment and actions help to provide a better education for all children.



OUR AFFILIATE DIRECTORS

Thanks to our dedicated Affiliate Directors, more than 150,000 students have access to life-changing Destination Imagination programming in 44 states and 17 countries.



OUR BOARD

Our passionate Board of Trustees consists of 17 educators, industry experts and thought leaders who are passionate about STEAM education and preparing students for the 21st century workforce.



OUR STAFF

Destination Imagination, Inc. has 25 full-time staff located at our headquarters in Cherry Hill, NJ and working remotely around the U.S. who help develop and oversee Destination Imagination programs, events and administration.



THANKS TO OUR VOLUNTEERS

"Thanks" is a small word with a powerful meaning. Our heartfelt thanks go to all the DI volunteers (nearly 40,000 of you!) for your tireless support and countless hours of work to make Destination Imagination happen for students around the world.

THANK YOU TO OUR SUPPORTERS

Through the support of our partners and sponsors, Destination Imagination can continue to provide students with an invaluable education in 21st century learning and career readiness.

EXPLORER PARTNERS



CHAMPION PARTNERS



CREATIVITY COLLABORATORS



**To view the 2016 Destination
Imagination Annual Report
online, please visit**

**2016annualreport.
destinationimagination.org**

or scan the QR code below.





DESTINATION IMAGINATION, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015
(with supplementary information)

DESTINATION IMAGINATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Destination Imagination, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Destination Imagination, Inc., which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and changes in net assets, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 2016 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 Destination Imagination, Inc. as of September 30, 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.

Prior Period Financial Statements

The financial statements of Destination Imagination, Inc. as of September 30, 2015 were audited by other auditors whose report dated November 6, 2015, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses for the year ended September 30, 2016 shown on page 13 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The accompanying schedule of functional expenses for the year ended September 30, 2015 shown on page 14 was subjected to the auditing procedures applied in the September 30, 2015 audit of the basic financial statements by other auditors, whose report on such information stated that the 2015 schedule was fairly stated in all material respects in relation to the September 30, 2015 financial statements as a whole.

The image shows a handwritten signature in black ink that reads "EisnerAmper LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania
January 16, 2017

DESTINATION IMAGINATION, INC.

Statements of Financial Position

	September 30	
	2016	2015
ASSETS		
Cash	\$ 1,422,113	\$ 1,047,577
Accounts receivable	95,715	185,449
Other receivables	53,849	43,849
Inventory	82,670	106,905
Prepaid expenses	400,215	392,066
Restricted cash	147,000	-
Property and equipment, net	<u>1,298,378</u>	<u>1,330,668</u>
	<u>\$ 3,499,940</u>	<u>\$ 3,106,514</u>
LIABILITIES		
Accounts payable	\$ 90,721	\$ 158,460
Accrued expenses	295,640	319,202
Other liabilities	88,092	51,793
Deferred revenue	453,515	443,474
Due to affiliate	<u>147,000</u>	<u>-</u>
	<u>1,074,968</u>	<u>972,929</u>
COMMITMENTS		
NET ASSETS		
Unrestricted net assets:		
Undesignated	2,234,066	1,784,631
Board designated	<u>57,680</u>	<u>47,942</u>
	<u>2,291,746</u>	<u>1,832,573</u>
Temporarily restricted net assets	<u>133,226</u>	<u>301,012</u>
	<u>2,424,972</u>	<u>2,133,585</u>
	<u>\$ 3,499,940</u>	<u>\$ 3,106,514</u>

DESTINATION IMAGINATION, INC.

Statements of Activities and Changes in Net Assets

	Year Ended September 30					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:						
Global finals	\$ 10,373,482	\$ -	\$ 10,373,482	\$ 10,018,602	\$ -	\$ 10,018,602
Team registrations	1,255,375	-	1,255,375	1,137,212	-	1,137,212
Grants, contributions and sponsorships	829,189	173,395	1,002,584	607,340	312,195	919,535
Product sales	75,086	-	75,086	103,482	-	103,482
Affiliate license fee	9,500	-	9,500	9,450	-	9,450
Training and conferences	5,440	-	5,440	20,050	-	20,050
Investment income	3,605	-	3,605	1,956	-	1,956
Other	17,341	-	17,341	1,188	-	1,188
Net assets released from restrictions	341,181	(341,181)	-	82,092	(82,092)	-
	<u>12,910,199</u>	<u>(167,786)</u>	<u>12,742,413</u>	<u>11,981,372</u>	<u>230,103</u>	<u>12,211,475</u>
Expenses:						
Program services	11,553,584	-	11,553,584	11,231,035	-	11,231,035
Supporting services:						
Management and general	700,622	-	700,622	643,907	-	643,907
Fundraising	196,820	-	196,820	291,521	-	291,521
	<u>12,451,026</u>	<u>-</u>	<u>12,451,026</u>	<u>12,166,463</u>	<u>-</u>	<u>12,166,463</u>
Change in net assets	459,173	(167,786)	291,387	(185,091)	230,103	45,012
Net assets at beginning of year	<u>1,832,573</u>	<u>301,012</u>	<u>2,133,585</u>	<u>2,017,664</u>	<u>70,909</u>	<u>2,088,573</u>
Net assets at end of year	<u>\$ 2,291,746</u>	<u>\$ 133,226</u>	<u>\$ 2,424,972</u>	<u>\$ 1,832,573</u>	<u>\$ 301,012</u>	<u>\$ 2,133,585</u>

See notes to financial statements

DESTINATION IMAGINATION, INC.

Statements of Cash Flows

	<u>Year Ended September 30</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 291,387	\$ 45,012
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	64,092	66,849
Write-off of loan receivable	-	42,760
Loss on disposition of property and equipment	-	13,981
(Increase) decrease in assets:		
Accounts receivable	89,734	(94,860)
Other receivables	(10,000)	67,077
Inventory	24,235	(31,709)
Prepaid expenses	(8,149)	44,074
Restricted cash	(147,000)	-
Increase (decrease) in liabilities:		
Accounts payable	(67,739)	81,210
Accrued expenses	(23,562)	84,287
Other liabilities	36,299	(4,300)
Deferred revenue	10,041	55,279
Due to affiliate	147,000	-
Net cash provided by operating activities	<u>406,338</u>	<u>369,660</u>
Cash flows from investing activities:		
Purchase of property and equipment	(31,802)	(37,873)
Proceeds from sale of property and equipment	-	1,501
Net cash used in investing activities	<u>(31,802)</u>	<u>(36,372)</u>
Net increase in cash	374,536	333,288
Cash at beginning of year	<u>1,047,577</u>	<u>714,289</u>
Cash at end of year	<u><u>\$ 1,422,113</u></u>	<u><u>\$ 1,047,577</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u><u>\$ 719</u></u>	<u><u>\$ 645</u></u>

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE A - DESCRIPTION OF ORGANIZATION

Destination Imagination, Inc. (the "Organization") is a nonprofit 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 for 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of accounting:

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The net assets of the Organization are classified as follows:

- ***Unrestricted:***

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions.

- ***Temporarily restricted:***

Temporarily restricted net assets represent those resources that are subject to donor-imposed stipulations that will be met by actions of the Organization or by the passage of time. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

- ***Permanently restricted:***

Permanently restricted net assets represent those resources subject to donor-imposed stipulations that the corpus be invested in perpetuity and that only the investment income be made available for operations in accordance with donor restrictions. There were no permanently restricted net assets as of September 30, 2016 and 2015.

[2] Concentration of credit risk:

The Organization maintains cash balances at several financial institutions in both interest-bearing and noninterest-bearing accounts. At times, these amounts may exceed the federally insured limit. The Organization has not experienced any losses in these accounts, and believes it is not exposed to any significant credit risk.

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Receivables:

Accounts receivable 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 accounts receivable. Accounts are written off when they are deemed uncollectible. Management has determined that an allowance is not deemed necessary as of September 30, 2016 and 2015.

[4] Inventory:

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

[5] Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Acquisitions of property and equipment and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets in excess of \$5,000 are capitalized. Depreciation is provided for using the straight-line method over the assets' estimated useful lives as follows:

Building	40 years
Building improvements	10 - 40 years
Furniture, fixtures and equipment	5 - 8 years
Vehicles	5 years

Depreciation for the years ended September 30, 2016 and 2015 amounted to \$64,092 and \$66,849, respectively.

The Organization reviews the carrying value of the property and equipment 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 indicates that the assets may be impaired, i.e. that the carrying amounts of the assets exceeds the sum of their expected future cash flows on an undiscounted basis, the assets' carrying amounts are written down to fair value. No impairment adjustments have been made during the years ended September 30, 2016 or 2015 as a result of this review process.

[6] Revenue recognition:

Grants, contributions and sponsorships are recorded when received as unrestricted revenue or temporarily restricted net assets depending on the absence or existence of any donor or sponsor restrictions. Unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized only when conditions on which they depend are substantially met and the promises become unconditional.

Team registration revenue represents revenue from the sale of challenge materials and is recognized over the period to which it relates.

Product sales revenue is recognized at the point of sale or, if ordered, when shipped.

Global Finals' revenue (see Note H) consists of housing costs, sponsorships, contributions and product sales for Global Finals. The housing costs are recognized when the Global Finals' event that they represent takes place. Revenue for Global Finals' sponsorships, contributions and product sales is recognized in the same manner as described above.

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Deferred revenue:

Income from team registrations is deferred and recognized over the periods to which it relates.

[8] 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.

[9] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[10] Advertising:

The Organization follows the policy of charging the costs of advertising, sponsorships and exhibits to expense as incurred.

[11] Contributed and volunteered services:

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Approximately 35,000 volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

[12] Functional 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 periodic time and expense studies. 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.

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[13] Federal tax status:

The Organization has been classified by the Internal Revenue Service as an organization described under Section 501(c)(3) of the Internal Revenue Code ("Code") and is exempt from federal income taxes under Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability, if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of September 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of management and general expenses. There were no income tax related interest and penalties recorded for either of the years ended September 30, 2016 or 2015.

[14] New accounting pronouncement:

In August 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources, and e) presentation of operating cash flows. The new standard will be effective for fiscal years beginning after December 15, 2017, which will be the year beginning on July 1, 2018 for the Organization, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2016-14 on its financial statements and related disclosures.

[15] Reclassifications:

Certain amounts in the 2015 financial statements have been reclassified, with no effect on net assets, to conform to the current year's presentation.

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 178,000	\$ 178,000
Buildings	1,084,108	1,084,108
Building improvements	126,666	118,416
Furniture, fixtures and equipment	<u>357,045</u>	<u>333,493</u>
	1,745,819	1,714,017
Less accumulated depreciation	<u>447,441</u>	<u>383,349</u>
	<u>\$ 1,298,378</u>	<u>\$ 1,330,668</u>

NOTE D - 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. The Organization's contributions for the years ended September 30, 2016 and 2015 amounted to \$52,525 and \$47,969, respectively.

NOTE E - LINES-OF-CREDIT

The Organization had a \$200,000 revolving line-of-credit available from Fulton Bank of New Jersey, which on September 14, 2016, was increased to \$900,000. Advances are payable on demand and carry an interest rate equal to the prime rate (prime was 3.50% and 3.25% as of September 30, 2016 and 2015, respectively). This line-of-credit matures on October 1, 2018 and is collateralized by property and equipment of the Organization. There was no outstanding balance as of September 30, 2016 and 2015.

On September 14, 2016, the Organization entered into a nonrevolving line-of-credit facility for \$400,000 with Fulton Bank of New Jersey. Advances are payable on demand and carry an interest rate equal to the prime rate. This line-of-credit matures on September 14, 2017 and is collateralized by all of the Organization's personal property and assets. There was no outstanding balance as of September 30, 2016.

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2016 and 2015, temporarily restricted net assets consisted of grants and contributions restricted for Global Finals from the following donors:

	<u>2016</u>	<u>2015</u>
3M Foundation	\$ 60,000	\$ 70,000
Motorola Foundation	30,000	67,363
Disney Worldwide	10,000	132,300
PMI Educational Foundation	32,490	30,427
Other	<u>736</u>	<u>922</u>
	<u>\$ 133,226</u>	<u>\$ 301,012</u>

NOTE G - COMMITMENTS AND CONTINGENCIES

The Organization has contracted to hold Global Finals through 2017 at the University of Tennessee. Either party can terminate this contract. Under certain circumstances, cancellation fees would apply.

The Organization entered into an eight-year agreement with Public Consulting Group, Inc. ("PCGI"). In October 2014, PCGI was granted exclusive rights within the United States to use and adapt content already created by Destination Imagination, Inc. Under terms of this agreement, PCGI will pay a minimum of \$640,000 as follows: commencing in October 2014, \$60,000 per year through October 2017, followed by \$100,000 per year through October 2021. For the third and fourth year of the agreement, the licensee shall pay 3% of net revenue for the prior year if it is greater than the \$60,000 due for those years. For the fifth year and each subsequent year thereafter, the licensee shall pay 5% of net revenue for the prior year if it is greater than the \$100,000 due for those years. The Organization received \$60,000 for each of the years ended September 30, 2016 and 2015 under this agreement.

DESTINATION IMAGINATION, INC.

Notes to Financial Statements September 30, 2016 and 2015

NOTE H - GLOBAL FINALS

Each May, the Organization holds an annual tournament named Global Finals. Revenues and expenses of this tournament included in program services for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Revenues:		
Housing	\$ 9,773,406	\$ 9,491,468
Sponsorships and contributions	14,850	43,360
Souvenir/product sales	293,802	302,633
Special events and transfers	291,424	181,141
	<u>10,373,482</u>	<u>10,018,602</u>
Expenses:		
Awards	56,643	35,363
Consulting	-	9,500
Housing and registration	6,340,254	6,365,343
Program and video expense	1,249,737	1,436,789
Salaries - bonus and overtime	639,571	611,495
Souvenir purchases	149,526	163,811
Special events and transfers	214,676	170,965
	<u>8,650,407</u>	<u>8,793,266</u>
	<u>\$ 1,723,075</u>	<u>\$ 1,225,336</u>

NOTE I - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 16, 2017, which is the date the financial statements were available to be issued, and determined that there are no other items to disclose.

DESTINATION IMAGINATION, INC.

Schedule of Functional Expenses Year Ended September 30, 2016

	Program Services	Management and General	Fundraising	Total
Direct cost:				
Affiliate support and administration	\$ 56,203	\$ -	\$ -	\$ 56,203
DI University	4,147	-	-	4,147
Licensee conference	151,726	-	-	151,726
Program materials/shipping/commissions	295,008	-	-	295,008
Creative Compass/other materials	198,108	-	-	198,108
Credit card fees	26,849	-	-	26,849
Conference and bulk mail reimbursement	29,111	-	-	29,111
Team challenges	44,004	-	-	44,004
QRP challenges	12,423	-	-	12,423
Instant challenges	17,453	-	-	17,453
Product cost	231,055	-	-	231,055
Events and other	2,040	-	-	2,040
Release of restrictions	220,533	-	-	220,533
International invitation tournament	15,943	-	-	15,943
Asia office costs	598	-	-	598
Cost of grants	29,947	-	-	29,947
Global Finals	8,650,407	-	-	8,650,407
	<u>9,985,555</u>	<u>-</u>	<u>-</u>	<u>9,985,555</u>
Staff expense:				
Staff salaries/commissions	737,884	368,794	106,266	1,212,944
Professional development	20,222	10,107	2,912	33,241
Employer cost	138,310	69,127	19,919	227,356
Retirement contribution	31,953	15,970	4,602	52,525
Employee expense - Outreach	39,074	19,529	5,627	64,230
Employee expense	101,276	50,618	14,585	166,479
	<u>1,068,719</u>	<u>534,145</u>	<u>153,911</u>	<u>1,756,775</u>
Other operating expense:				
Board of Trustees administration/travel	26,762	13,376	3,854	43,992
IT costs	76,322	38,146	10,992	125,460
Annual report/art	610	305	88	1,003
Audit and legal fees	71,461	35,716	10,291	117,468
Association memberships	23,861	11,926	3,436	39,223
Other shipping	9,316	4,656	1,342	15,314
Office supplies	68,543	34,258	9,871	112,672
Insurance	94,996	9,700	494	105,190
Building maintenance	55,373	5,654	288	61,315
Interest	650	66	3	719
Contributions/Donations	13,524	6,759	1,948	22,231
Miscellaneous	11	5	1	17
	<u>441,429</u>	<u>160,567</u>	<u>42,608</u>	<u>644,604</u>
Depreciation	<u>57,881</u>	<u>5,910</u>	<u>301</u>	<u>64,092</u>
	<u>\$ 11,553,584</u>	<u>\$ 700,622</u>	<u>\$ 196,820</u>	<u>\$ 12,451,026</u>

DESTINATION IMAGINATION, INC.

Schedule of Functional Expenses Year Ended September 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Direct cost:				
Affiliate support and administration	\$ 113,951	\$ -	\$ 45,661	\$ 159,612
DI University	31,621	-	-	31,621
Licensee conference	130,066	-	-	130,066
Program materials/shipping/commissions	319,103	-	-	319,103
Creative Compass/other materials	99,363	-	-	99,363
Credit card fees	18,927	-	-	18,927
Conference and bulk mail reimbursement	22,350	-	-	22,350
Team challenges	43,962	-	-	43,962
QRP challenges	11,819	-	-	11,819
Instant challenges	7,532	-	-	7,532
Product cost	24,376	-	-	24,376
Events and other	37,515	-	-	37,515
Asia office costs	50,883	-	-	50,883
Global fundraising networking	117,500	-	-	117,500
Global Finals	8,793,266	-	-	8,793,266
	<u>9,822,234</u>	<u>-</u>	<u>45,661</u>	<u>9,867,895</u>
Staff expense:				
Staff salaries/commissions	599,264	333,807	127,370	1,060,441
Professional development	22,950	14,840	5,950	43,740
Employer cost	131,591	36,280	13,843	181,714
Retirement contribution	32,284	12,644	3,041	47,969
Employee expense - Outreach	35,301	10,627	22,786	68,714
Employee expense	114,111	51,406	34,532	200,049
	<u>935,501</u>	<u>459,604</u>	<u>207,522</u>	<u>1,602,627</u>
Other operating expense:				
Board of Trustees administration/travel	7,000	24,501	3,500	35,001
IT costs	100,595	25,149	-	125,744
Annual report/art	2,453	1,227	409	4,089
Audit and legal fees	47,530	47,554	1,348	96,432
Association memberships	21,166	16,107	30,792	68,065
Other shipping	9,411	1,046	-	10,457
Office supplies	55,391	13,848	-	69,239
Insurance	68,806	29,784	916	99,506
Building maintenance	47,878	5,019	749	53,646
Interest	576	60	9	645
Miscellaneous	9,617	-	-	9,617
	<u>370,423</u>	<u>164,295</u>	<u>37,723</u>	<u>572,441</u>
Write-off of bad debts	42,670	-	-	42,670
Loss on disposal of assets	13,981	-	-	13,981
Depreciation	46,226	20,008	615	66,849
	<u>\$ 11,231,035</u>	<u>\$ 643,907</u>	<u>\$ 291,521</u>	<u>\$ 12,166,463</u>