KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditor's Report

September 30, 2016 and 2015

JAMES H. QUIST CPA PLC

KIDS HOPE USA

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Enhancing Trust

KIDS HOPE USA

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LEADERSHIP AND STAFF
FY2015-2016

BOARD OF DIRECTORS

Doug Ruch, Board Chair	Fleetwood Group, retired CEO
Doug VanDyken, Treasurer	Hope College
Brian Mucci, Secretary	Triple Quest
Brain Davis, PhD	Holland Public Schools
Seth Bushouse	Gentex
Jana Bulthuis	DP Fox Holdings, LLC
Kellen Elliott	Warner, Norcross and Judd, LLP
David Staal, President	Kids Hope USA

NATIONAL OFFICE STAFF

David Staal	President & CEO
Drew Peirce	Director of Development
Chris Reinsma	Director of Program Support
Michelle Exoo	Director of Finance and Administration
Anna Scholten	Director of Program Training
Mark Sumney	Director of Partnerships
Theresa Casey	Donor Relations Manager
Debra Bohl	Development Administrative Assistant
Corrie Krol	Program Support Coordinator
Jennifer Packard	Education and Training Assistant
Elise Sagmore	Communications Coordinator/ Administrative Assistant
Rayanne Beaudry	Online Store & Office Manager
Bethany Wassink	Accounting Associate
Carol Slagh	Enterprise Engineer

LOCAL OFFICE STAFF

Illinois

Annette Forster	Director/Illinois
Kari McLennan	Associate PSC/Illinois

Texas

Lise Cook	Regional Executive Director
Tracey Bogan	Director/Houston
Amanda McNulty	Regional Coordinator
Lori Cyr	Associate PSC/Houston

Georgia

Mary Lou Heaner	Associate PSC/Atlanta

Ohio

Patty Rose	Associate PSC/Ohio

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kids Hope USA
Zeeland, Michigan

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying statements of financial position of Kids Hope USA (a nonprofit organization) as of September 30, 2016 and 2015, the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

JAMES H. QUIST CPA PLC

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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kids Hope USA as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT, continued

OTHER MATTER

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Management Discussion and Analysis on pages 4 and 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and, in part, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements; I therefore do not express an opinion or provide any assurance regarding it.

Wyoming, Michigan
December 14, 2016

KIDS HOPE USA
MANAGEMENT DISCUSSION AND ANALYSIS
For Fiscal Year 2015-2016

At a Capitol Hill forum focused on the dark and challenging issues facing today's young people, a former gang member shared details of his street life that soon graduated into youth center incarceration. Eventually, he shared that following his release from jail a family had taken him in. Nice story. Worth polite applause.

But just before the session adjourned, an audience member's hand went up. "Would anything have changed if an adult had consistently shown up in your early life, like in elementary school, and encouraged you?"

The young man paused. He thought. "I would have made big-time different decisions," he said. "If someone would've been there for me, I wouldn't have needed a gang to feel like someone cared about me. None of this would've happened.

"It's crazy what hope can do," he added.

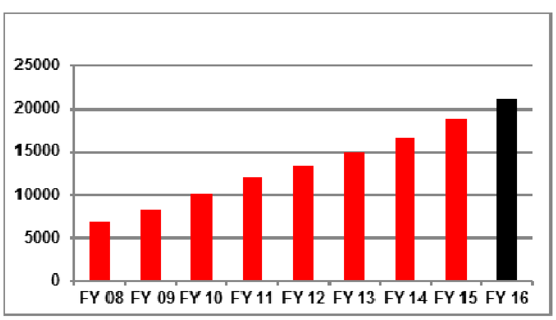
(excerpt from Show Up, by David Staal)

During fiscal year 2015-2016, Kids Hope USA took this young man's words to heart. As a result, the organization began to imagine potential more than we conceded to limitations. We intently looked at the burgeoning demand for our program and concluded that substantial reengineering must take place, that our aspirations must turn upward, and a new era must begin.

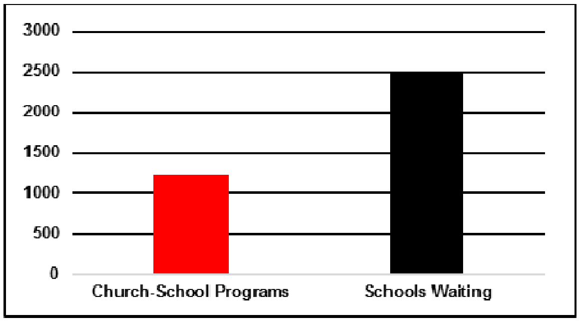
So while record growth continued, new expansion planning began. While generous support fueled our work, significant new investments arrived. And the existing systems we utilize were deemed due for major upgrades or replacement. Details will emerge during 2016-2017.

Yes, another successful year took place by all counts and measures, as the following pages will show. Considering how, in the midst of reaching a record number of students, fresh passion for a new era arrived, just one reasonable conclusion seems appropriate: *It's crazy what hope can do.*

Expansion Continues



Students Reached
An additional 2,359 (+12 percent) elementary and middle school students now receive hope and love from reliable, caring adult mentors (supported by prayer partners). Our network, when all programs fully operate, will reach 21,225 kids.



Market Demand
Throughout the markets in which we operate, increasing numbers of educators recommend the USA program to their peers. This results in demand that continues to climb: The school waiting list is now more than double the number of active church-school programs.

Organizational Efficiency + Effectiveness

Student Increase Outpaces Expenses
While total organizational expenses rose 4.7 percent, the number of students reached increased by 12 percent. Efficiencies gained from innovative new approaches, such as online director trainings, combined with personnel shifts and timing of new hires to keep costs down across many departments. The organization experienced zero staff turnover during the fiscal year.

Leveraged Leadership
When all church-school programs fully operate, church directors will lead 42,450 volunteer mentors and prayer partners; a 1,632:1 ratio of volunteers to Kids Hope USA staff and contract positions. Care for this network changed substantially; a team of local support coordinators now operate beside our partnerships team in each of our major markets.

New Initiative
A long-term strategic initiative received Board approval in April. Several major donors committed multi-year gifts to support this new direction. Due to standard accrual accounting, these commitments appear as income this year, with the actual funds scheduled to arrive over the next two to three years. This explains why donation income dramatically rose. Details about this exciting new initiative will emerge over the next fiscal year.

Financial Health

Balance Sheet Strength
The $3.1 million in total assets (125 percent increase) includes nearly three-fold increases in contributions receivables and the endowment; liabilities increased by less than $6,000 and represent only 2.8 percent of assets. Liquidity remains high; cash, prepaid expenses, receivables, and investments total $3 million. Payments from multi-year gifts will diminish this total over the next three years unless, of course, additional similar pledges arrive.

Cash Management
Due to advantageous gift timing and conservative expense decisions, our ending cash balance increased by $64,262.

KIDS HOPE USA

Statements of Financial Position

	September 30, 2016	September 30, 2015
ASSETS		
Cash and cash equivalents	$ 417,114	$ 352,852
Accounts receivable, net of allowance of $14,063 and $17,457 at September 30, 2016 and 2015, respectively	23,760	43,318
Prepaid expenses	30,433	24,211
Investment	4,195	5,946
Contributions receivable	1,572,904	457,000
Trademark and website domains	20,000	20,000
Investments held for long-term purposes	956,631	383,134
	3,025,037	1,286,461
Furniture, equipment and amortizable assets		
Furniture and fixtures	36,512	36,512
Office equipment	7,008	7,008
Computer systems	173,190	120,975
Website development costs	51,300	51,300
Training and promotional media	35,411	82,444
Accumulated depreciation and amortization	(230,066)	(208,069)
	73,355	90,170
Total Assets	$ 3,098,392	$ 1,376,631
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 32,186	$ 36,446
Accrued payroll and payroll taxes	51,172	37,755
Deferred revenue	3,805	6,950
Total Liabilities	87,163	81,151
Net Assets		
Unrestricted		
Undesignated	1,846,928	669,154
Designated - endowment	13,632	-
Net investment in furniture and equipment	73,355	90,170
	1,933,915	759,324
Temporarily Restricted	142,414	136,156
Permanently Restricted	934,900	400,000
Total Net Assets	3,011,229	1,295,480
Total Liabilities and Net Assets	$ 3,098,392	$ 1,376,631

See accompanying notes to financial statements

KIDS HOPE USA

Statements of Activities

	For the Years Ended September 30,							
	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Affiliate and training fees	$ 232,362	$ -	$ -	$ 232,362	$ 194,281	$ -	$ -	$ 194,281
Less: scholarships and discounts	(4,425)	-	-	(4,425)	(20,330)	-	-	(20,330)
	227,937	-	-	227,937	173,951	-	-	173,951
Contributions	2,506,828	139,500	534,900	3,181,228	986,566	219,900	400,000	1,606,466
Sales	7,954	-	-	7,954	8,838	-	-	8,838
Gifts in kind	6,047	-	-	6,047	-	-	-	-
Investment income (loss)	1,731	32,835	-	34,566	438	(15,043)	-	(14,605)
Total Support and Revenue	2,750,497	172,335	534,900	3,457,732	1,169,793	204,857	400,000	1,774,650
RECLASSIFICATIONS								
Net assets released for satisfaction of purpose restrictions	166,077	(166,077)	-	-	499,790	(499,790)	-	-
EXPENSES								
Program services	1,321,184	-	-	1,321,184	1,290,940	-	-	1,290,940
Supporting activities								
Management and general	195,339	-	-	195,339	198,441	-	-	198,441
Fund-raising	225,460	-	-	225,460	174,096	-	-	174,096
Total Expenses	1,741,983	-	-	1,741,983	1,663,477	-	-	1,663,477
Change in Net Assets	1,174,591	6,258	534,900	1,715,749	6,106	(294,933)	400,000	111,173
Net Assets, Beginning of Year	759,324	136,156	400,000	1,295,480	753,218	431,089	-	1,184,307
Net Assets, End of Year	$ 1,933,915	$ 142,414	$ 934,900	$ 3,011,229	$ 759,324	$ 136,156	$ 400,000	$ 1,295,480

See accompanying notes to financial statements

KIDS HOPE USA

Statements of Functional Expenses

	For the Years Ended September 30,							
	2016				2015			
	Program	Management and General	Fund-Raising	Total	Program	Management and General	Fund-Raising	Total
Salaries and wages	$ 763,073	$ 78,322	$ 89,113	$ 930,508	$ 741,089	$ 76,066	$ 86,546	$ 903,701
Pension plan contributions	28,755	2,951	3,358	35,064	29,629	3,041	3,460	36,130
Other employee benefits	119,178	12,232	13,918	145,328	113,772	11,677	13,286	138,735
Payroll taxes	64,082	6,577	7,484	78,143	59,754	6,133	6,978	72,865
Professional services - accounting	-	12,335	-	12,335	-	11,484	-	11,484
Professional services - investment management fees	-	5,440	-	5,440	-	1,823	-	1,823
Professional services - other	84,420	2,576	61,655	148,651	74,104	7,359	1,499	82,962
Advertising and promotion	24,449	6,732	-	31,181	6,920	1,934	1,463	10,317
Office expenses	40,965	23,665	21,028	85,658	34,109	33,827	40,579	108,515
Information technology	35,681	5,726	2,863	44,270	46,296	7,430	4,092	57,818
Occupancy	30,033	6,221	6,221	42,475	23,997	4,889	4,888	33,774
Travel	41,632	6,044	5,317	52,993	36,022	5,589	8,264	49,875
Pilot programs	-	-	-	-	9,223	-	-	9,223
Conferences, conventions and meetings	67,123	15,147	-	82,270	99,660	17,685	-	117,345
Fund-raising events	-	-	10,015	10,015	-	-	-	-
Depreciation and amortization	21,793	4,489	4,488	30,770	16,365	3,042	3,041	22,448
Insurance	-	6,882	-	6,882	-	6,462	-	6,462
Total Expenses	$ 1,321,184	$ 195,339	$ 225,460	$ 1,741,983	$ 1,290,940	$ 198,441	$ 174,096	$ 1,663,477

See accompanying notes to financial statements

KIDS HOPE USA

Statements of Cash Flows

	For the Years Ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,715,749	$ 111,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions for long-term purposes	(534,900)	(400,000)
Investment (gains) losses	(23,999)	16,551
Decrease in allowance for doubtful accounts	(3,394)	(1,872)
Depreciation and amortization	30,770	22,448
Change in:		
Accounts receivable	22,952	98,863
Prepaid expenses	(6,222)	(5,700)
Contributions receivable	(1,115,904)	293,045
Accounts payable	(4,260)	22,957
Accrued payroll and payroll taxes	13,417	(28,207)
Deferred revenue	(3,145)	2,250
Net Cash Provided by Operating Activities	91,064	131,508
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions for long-term purposes	534,900	400,000
Proceeds from sales of investments	305,174	55,940
Purchases of investments	(852,921)	(453,347)
Purchases of furniture and equipment	(13,955)	(74,429)
Net Cash Used by Investing Activities	(26,802)	(71,836)
Change in Cash and Cash Equivalents	64,262	59,672
Cash and Cash Equivalents, Beginning of Year	352,852	293,180
Cash and Cash Equivalents, End of Year	$ 417,114	$ 352,852

See accompanying notes to financial statements

KIDS HOPE USA

Notes to Financial Statements

September 30, 2016 and 2015

1. NATURE OF ORGANIZATION

The church-school mentoring partnerships of Kids Hope USA (KHUSA) provide a proven intervention for at-risk kids, resulting in significant changes in attitude, behavior and academic performance. One-on-one mentoring allows at-risk children opportunity to seek and receive the support they need to build the self-esteem and motivation necessary to achieve and learn. KHUSA programs invest in the basic human needs of hurting children, laying a foundation that positions them for a more successful future.

KHUSA was incorporated in February 2002 under the laws of the state of Michigan to operate as a charitable organization within the meaning of Section 501(c)(3) of the Internal Revenue Code (code). It is exempt from federal and state income taxes, and contributions by the public are deductible within the limitations prescribed by the code. KHUSA has been classified as a public organization that is not a private foundation under Section 509(a) of the code.

KHUSA's revenues consist primarily of contributions by donors and program service fees from affiliates.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of KHUSA are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The significant accounting policies that have been adopted by KHUSA are described below.

CASH AND CASH EQUIVALENTS

KHUSA considers all cash on deposit and highly liquid investments as cash and cash equivalents. While balances in these accounts may at times exceed federally insured limits, KHUSA has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on these accounts.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of receivables from affiliates for program service fees. Accounts receivable are reported net of any anticipated losses due to uncollectible accounts. The allowance is maintained at a level that, in management's judgment, is adequate to absorb potential losses inherent in the receivables portfolio. The allowance for doubtful accounts is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, trends in historical loss experience, payment patterns from affiliates and general economic conditions. Uncollectible accounts are recognized as additions to bad debt expense in the period it is determined the amounts could become uncollectible. Management maintains an allowance for doubtful accounts, $14,063 and $17,457 at September 30, 2016 and 2015, respectively, against which account write-offs are charged throughout the year.

KHUSA considers an account to be past due when items billed on the account have not been paid by the due date. At September 30, 2016 and 2015, past due accounts totaled $1,064 and $5,600, respectively. Past due accounts are subject to internal collection efforts. No late fee is assessed on past due accounts.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued

INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES

Investment consists of a mortgage-backed security and investments held for long-term purposes consists of a managed portfolio consisting of cash equivalents, mutual funds and exchange-traded funds. All holdings are classified as available for sale and carried at fair value based on quoted prices in active markets where applicable and estimated market value when no ready market exists. For purposes of determining gross realized gains and losses, the cost of securities sold is based on specific identification. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Donated investments are reported at market value at the date of donation and thereafter carried in accordance with the above policies.

CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recognized as income when made and reported at fair value based upon estimated future cash flows. Unconditional promises to give expected to be collected within one year are reported at net realizable value because the present value of estimated cash flows approximates net realizable value. Unconditional promises to give expected to be collected in future years are reported at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promises are expected to be received. This discount rate is based on yields of U.S. treasury bills corresponding to the timing of the contributions receivable. Amortization of the discount is included in contributions revenue in the statements of activities. Management believes all contributions receivable balances are fully collectible at September 30, 2016 and 2015; there is, therefore, no allowance for doubtful promises to give.

FURNITURE, EQUIPMENT AND AMORTIZABLE ASSETS

Expenditures for furniture, equipment and amortizable assets in excess of $1,000 are capitalized at cost when purchased. Donated items are reported at their estimated fair market values as of the date the gifts were received. Depreciation and amortization is reported using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Depreciation and amortization expense was $30,770 and $22,448 for the years ended September 30, 2016 and 2015, respectively.

DEFERRED REVENUE

Deferred revenue consists of payments received from churches in the process of becoming affiliates. A payment from a church is recorded as deferred revenue until the church's director is trained by KHUSA, at which time the payments are reclassified to affiliate fee revenue. Deferred revenue also includes payments for additional training attendees received prior to the training sessions.

CLASSES OF NET ASSETS

The financial statements report amounts separately by classes of net assets:

UNRESTRICTED NET ASSETS are those currently available for program purposes under the direction of the board of directors, those designated by the board for a specific use, and those invested in furniture and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

CLASSES OF NET ASSETS, continued

TEMPORARILY RESTRICTED NET ASSETS are those subject to donor-imposed stipulations that may or will be met either by actions of KHUSA or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

PERMANENTLY RESTRICTED NET ASSETS are those subject to donor-imposed stipulations to be maintained permanently by an organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes.

SUPPORT AND REVENUE

Contributions are recognized when cash is received, unconditional promises to give are made or ownership of donated assets is transferred. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal 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 on the statements of activities as net assets released from restrictions.

Gifts of land, buildings and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time.

Affiliate and training fees are recognized when training of affiliate directors and other trainees has been completed.

Other income is recorded when earned.

IN-KIND CONTRIBUTIONS

KHUSA reports contributed goods as unrestricted support unless explicit donor stipulations specify how the donated goods must be used. Contributed services that require specialized skills are reflected in the statement of activities at their fair market value. For the years ended September 30, 2016 and 2015, $6,047 and $-0-, respectively, was recognized as contributed furniture and equipment. Except for items classified as capitalized equipment, donated goods were recorded as program expenses.

During the years ended September 30, 2016 and 2015, approximately 42,450 and 37,700 unpaid volunteers, respectively, contributed an estimated 891,450 and 791,700 hours, respectively, to mentor children and to perform other duties related to the KHUSA program. These services were not recognized as contributions in the statements of activities as they do not meet the necessary accounting criteria. The estimated value of volunteer services performed during the years ended September 30, 2016 and 2015 is approximately $21,002,600 and $18,264,500, respectively.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued

ALLOCATION OF EXPENSES

Expenses are reported as incurred. The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities that benefited from those expenditures.

RECLASSIFICATIONS

Certain reclassifications, specifically changes in the functional allocation of expenses, have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported activities or net assets.

3. CONTRIBUTIONS RECEIVABLE

Promises to give are reported at their realizable value, which approximates their net present value at September 30, 2016 and 2015. Contributions receivable consist of seven promises to give from various individuals, businesses and foundations for both years ended September 30, 2016 and 2015. See Note 2 for a description of the accounting policy for contributions receivable. Promises to give are expected to be collected as follows:

	September 30,	
	2016	2015
Amounts due in:		
Less than one year	$ 915,248	$ 457,000
One year to five years	670,000	-
Estimated future cash flows of contributions receivable	1,585,248	457,000
Less:		
Unamortized discount	(12,344)	-
Net present value of contributions receivable	$ 1,572,904	$ 457,000

KIDS HOPE USA

Notes to Financial Statements

September 30, 2016 and 2015

4. INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES
Investment and investments held for long-term purposes consist of the following:

	September 30, 2016					
	Investment			Investments Held For Long-Term Purposes		
	Fair Value	Carrying Value	Unrealized Gain (Loss)	Fair Value	Carrying Value	Unrealized Gain
Federal Home Loan Mortgage Corporation	$ 4,195	$ 4,316	$ (121)	$ -	$ -	$ -
Cap Trust Money Funds	-	-	-	111,151	111,151	-
Cap Trust Mutual Funds	-	-	-	642,024	634,434	7,590
Cap Trust Exchange Traded Products	-	-	-	203,456	185,759	17,697
	$ 4,195	$ 4,316	$ (121)	$ 956,631	$ 931,344	$ 25,287

	September 30, 2015					
	Investment			Investments Held For Long-Term Purposes		
	Fair Value	Carrying Value	Unrealized Gain (Loss)	Fair Value	Carrying Value	Unrealized Gain (Loss)
Federal Home Loan Mortgage Corporation	$ 5,946	$ 6,189	$ (243)	$ -	$ -	$ -
Cap Trust Money Funds	-	-	-	104,038	104,038	-
Cap Trust Mutual Funds	-	-	-	224,553	235,073	(10,520)
Cap Trust Exchange Traded Products	-	-	-	54,543	59,062	(4,519)
	$ 5,946	$ 6,189	$ (243)	$ 383,134	$ 398,173	$ (15,039)

4. INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES, continued

KHUSA accounts for investments at fair value, which is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Financial accounting standards have established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Under the standards, three levels of inputs that may be used to measure fair value:

Level 1 - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that KHUSA has the ability to access.

Level 2 - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Level 3 inputs are unobservable inputs including inputs that are available in situations where there is little, if any, market activity for the related asset. Management does not consider any investments to be in Level 3.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. KHUSA's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investments consists of a single holding of Federal Home Loan Mortgage Securities, the value of which is determined using primarily Level 2 measurement inputs.

Investments held for long-term purposes are held and managed by CapTrust Investment Advisors and include allocations to money funds, mutual funds and exchange traded products. Management has concluded that value of all holdings in the CapTrust portfolio are determined using Level 1 measurement inputs.

The measurement of fair values of investment holdings have thus been classified as follows:

	September 30, 2016		
	Level 1	Level 2	Total
Federal Home Loan Mortgage Corporation	$ -	$ 4,195	$ 4,195
CapTrust Investments	956,631	-	956,631
	$ 956,631	$ 4,195	$ 960,826

	September 30, 2015		
	Level 1	Level 2	Total
Federal Home Loan Mortgage Corporation	$ -	$ 5,946	$ 5,946
CapTrust Investments	383,134	-	383,134
	$ 383,134	$ 5,946	$ 389,080

4. INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES, continued
Investment income (loss) consists of the following:

	For the Year Ended September 30, 2016		
	Investments	Endowment	Total
Dividends and interest	$ 197	$ 9,947	$ 10,144
Net realized losses	-	(16,207)	(16,207)
Net unrealized (losses) gains	(121)	40,327	40,206
	76	34,067	34,143
Other bank interest	423	-	423
Total investment income	$ 499	$ 34,067	$ 34,566

	For the Year Ended September 30, 2015		
	Investments	Endowment	Total
Dividends and interest	$ 267	$ 1,132	$ 1,399
Net realized losses	-	(1,269)	(1,269)
Net unrealized losses	(243)	(15,039)	(15,282)
	24	(15,176)	(15,152)
Other bank interest	414	133	547
Total investment income (loss)	$ 438	$ (15,043)	$ (14,605)

5. ENDOWMENT
As required by generally accepted accounting principles, net assets associated with endowment funds, including any funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. KHUSA's endowment is funded both by board-designated allocations as well as donor-restricted contributions.

The Board has interpreted Michigan Prudent Management of Institutional Funds Act (MI-PMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, KHUSA classifies as permanently restricted net assets:

(1) the original value of gifts donated to the permanent endowment,
(2) the original value of subsequent gifts to the permanent endowment and
(3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

5. ENDOWMENT, continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MI-PMIFA. In accordance with MI-PMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the fund;
(2) the purposes of the organization and the donor-restricted endowment fund;
(3) general economic conditions;
(4) the possible effect of inflation and deflation;
(5) the expected total return from income and the appreciation of investments;
(6) other resources of the organization;
(7) the investment policies of the organization;
(8) organizational need and intended use of funds.

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND

	September 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 10,599	$ 934,900	$ 945,499
Board-designated endowment funds	13,632	-	-	13,632
Total funds	$ 13,632	$ 10,599	$ 934,900	$ 959,131

	September 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 400,000	$ 400,000
Board-designated endowment funds	(16,866)	-	-	(16,866)
Total funds	$ (16,866)	$ -	$ 400,000	$ 383,134

5. ENDOWMENT, continued

CHANGES IN ENDOWMENT NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 30, 2014	$ -	$ -	$ -	$ -
Investment return				
Dividends and interest	-	1,265	-	1,265
Realized losses	-	(1,269)	-	(1,269)
Unrealized losses	-	(15,039)	-	(15,039)
Management fees	-	(1,823)	-	(1,823)
	-	(16,866)	-	(16,866)
Contributions	-	-	400,000	400,000
Transfers	(16,866)	16,866	-	-
Endowment net assets, September 30, 2015	(16,866)	-	400,000	383,134
Investment return				
Dividends and interest	145	9,802	-	9,947
Realized losses	(151)	(16,056)	-	(16,207)
Unrealized gains	1,238	39,089	-	40,327
Management fees	(70)	(5,370)	-	(5,440)
	1,162	27,465	-	28,627
Contributions	-	-	534,900	534,900
Board-designated resources	12,470	-	-	12,470
Transfers	16,866	(16,866)	-	-
Endowment net assets, September 30, 2016	$ 13,632	$ 10,599	$ 934,900	$ 959,131

FUNDS WITH DEFICIENCIES

From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or MI-PMIFA requires KHUSA to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are to be reported in unrestricted net assets. These deficiencies generally result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that is deemed prudent by the board. Because of market fluctuations, there was a deficiency of $-0- and $16,866 at September 30, 2016 and September 30, 2015, respectively.

5. ENDOWMENT, continued

RETURN OBJECTIVES AND RISK PARAMETERS

The investment objectives of KHUSA are:

(1) to preserve the long-term real purchasing power of endowment fund assets,
(2) to realize an appropriate level of investment income and
(3) to invest endowment funds in a manner which is consistent with the needs and circumstances of donors and beneficiaries.

The long-term investment goal is to provide a rate of return equal to or exceeding overall market performance. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, KHUSA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). KHUSA targets a diversified asset allocation using a balanced equity/fixed income strategy to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

KHUSA will not appropriate funds for distribution until endowment total deposits exceed $1 million. Once the $1 million goal has been achieved, KHUSA will adhere to a policy of appropriating for distribution each year 5 percent of the average fair value of the endowment fund as of the end of the twelve most recent calendar quarters. In addition, spendable funds shall not be less than 3 percent and shall not exceed 7 percent of the value of the endowment as of the most recent fiscal year end. In establishing this policy, KHUSA considered the long-term expected return on its endowment. Accordingly, over the long term, KHUSA expects the current spending policy to be consistent with KHUSA's objective to maintain the purchasing power of the endowment assets held for donor-specified purposes as well as to provide additional real growth through new gifts and investment return.

6. LINE OF CREDIT

KHUSA has a $100,000 bank line of credit which matures in May 2017 and is secured by all assets. Amounts borrowed under this agreement bear interest at the bank's prime rate, which was 3.5 percent at September 30, 2016. KHUSA did not borrow under this line of credit during the years ended September 30, 2016 and 2015.

7. EMPLOYEE BENEFIT PLANS

KHUSA provides retirement benefits to eligible staff through a 401(k) defined contribution retirement plan, contributing into the plan the equivalent of 3 percent of each eligible employee's compensation plus 1 percent to match employee contributions of at least that amount. Contributions to the plan during the years ended September 30, 2016 and 2015 were $35,064 and $36,130, respectively.

KHUSA paid $145,328 and $138,735 during the years ended September 30, 2016 and 2015, respectively, for employee group health and life insurance coverage.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2016 and 2015

8. LEASES

KHUSA leases its headquarters office space under an operating lease agreement on a twenty-four month basis. This agreement was most recently renewed in September 2015 for the thirty-six month period ending September 2018, requiring monthly payments of $3,219.

KHUSA also leases office equipment under a sixty month operating lease agreement with required monthly payments of $429. This agreement expires May 2019. A second office equipment operating lease was extended in February 2015 for thirty-six months, requiring quarterly payments of $126.

Total lease expense for the years ended September 30, 2016 and 2015 was $44,591 and $36,639, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ending September 30,	Lease Payments
2017	$ 44,591
2018	44,087
2019	4,549
Total	$ 93,227

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	September 30, 2016	September 30, 2015
Campaign	$ 125,000	$ -
Endowment	10,599	-
General (time restricted)	-	119,900
Research and development	-	9,441
Scholarship	6,815	6,815
Total	$ 142,414	$ 136,156

10. CONCENTRATIONS

For the years ended September 30, 2016 and 2015, the top five donors provided 60 percent and 55 percent, respectively, of total contributions.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 14, 2016 which is the date the financial statements were available to be issued.