



KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditor's Report

September 30, 2018 and 2017

KIDS HOPE USA

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KIDS HOPE USA

Table of Contents

	<u>Page</u>
Leadership and Staff	1
Independent Auditor's Report	2
Management Discussion and Analysis	3-4
Financial Statements	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to Financial Statements	9-20



LEADERSHIP AND STAFF 2017 - 2018

BOARD OF DIRECTORS

Doug Ruch, Board Chair	Fleetwood Group, retired CEO
Doug VanDyken, Treasurer	Hope College
Brian Davis, Secretary	Holland Public Schools
Jana Bulthuis	DP Fox Holdings, LLC
Dave Vanderwel	Retired not for profit executive
Suzanne Shier	Northern Trust
David Staal, President & CEO	Kids Hope USA
Thom Spelde, COO	Kids Hope USA

SUPPORT CENTER STAFF

David Staal	President & CEO
Thom Spelde	COO
Denise Whittington	Interim Director of Finance and Administration
Troy Johnson	Director of Sales and Marketing
Kara Nguyen	Director of Development
Amanda McNulty	Product Development
Patty Rose	Manager of Customer Experience
Carrie Danek	Training Specialist
Elise Sagmore	Administrative Assistant
Bethany Wassink	Accounting Associate

REGIONAL OFFICE STAFF

Michigan

Cheryl Molhoek	Director
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Illinois

Annette Forster	Director
Kari McLennan	Program Specialist
Michelle Silberfine	Growth Specialist
Jamie Perkins	Administrative Assistant

Texas

Lise Cook	Director
Fran Lobpries	Growth Specialist
Tammy Johnston	Program Specialist
Kate Cochran	Administrative Assistant

Houston	
Tracey Bogan	Director
Lori Cyr	Program Specialist

Georgia

Davina Pennington	Director
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Ohio

Wally Martinson	Director
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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Kids Hope USA
Zeeland, Michigan**

I have audited the accompanying statements of financial position of Kids Hope USA (a nonprofit organization), as of September 30, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 audits 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.

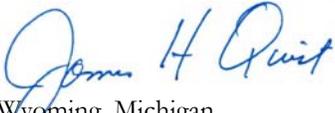
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2018 and 2017 and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3 and 4 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
January 9, 2019

2425 Avon Avenue SW
Wyoming MI 49519-2207
616 443 5344
jqquist@quist-cpa.com

KIDS HOPE USA

MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year 2017 - 2018

At Kids Hope USA, a new number debuted.

When all mentoring programs in our network fully operate, they now reach over 25,000 students. That means more than 50,000 volunteers have stepped forward to help at-risk kids. And together, they invest greater than 1,000,000 prime, weekday hours. Nice numbers, but there’s one that means even more.

For over two decades, a Kids Hope USA relationship involved three people; two volunteers for every student (a mentor and a behind-the-scenes prayer partner). This year, that critical number rose to four when we added a new role—a scholarship provider. For just \$15 per month, a generous-hearted person will cover the cost for a student, mentor, and prayer partner to participate in a *Life Together* relationship. This program—a new era of mentoring—required tremendous financial investments and organizational focus shown in the pages that follow. Early returns, though, show the benefits exceed the costs:

I am loving all of the Life Together tools Kids Hope USA provided us with this year. I have used four of them thus far, each making an impact.

While end-users share enthusiasm, strong endorsements for our program regularly arrive from key education leaders. Why? Because they see the tremendous potential for lasting change delivered by *Life Together* relationships. Recently, Texas Education Commissioner Mike Morath sent us a letter that said:

Kids Hope USA mentors bring encouraging energy throughout our school hallways and straight into students' hearts. When a caring adult shows up in a student's life every week, a new narrative begins—a positive story that will last a lifetime. Thank you for partnering with us. I am a strong proponent of Kids Hope USA and recommend this program for all our Texas public schools.

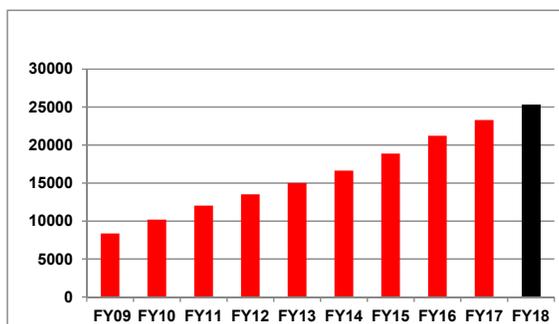
We feel deep gratitude to our four key collaborative partners that each contributed key portions to *Life Together*: Studio North, Winning At Home, Group Publishing, and Compassion International. Several amazingly generous funders made Life Together possible, and we continue to give great thanks for them.

While “four” made a strong debut this year, our focus remains firmly fixed on another number.

Kids Hope USA builds life-changing relationships one at a time:

One Child. One Hour. One School. One Church.

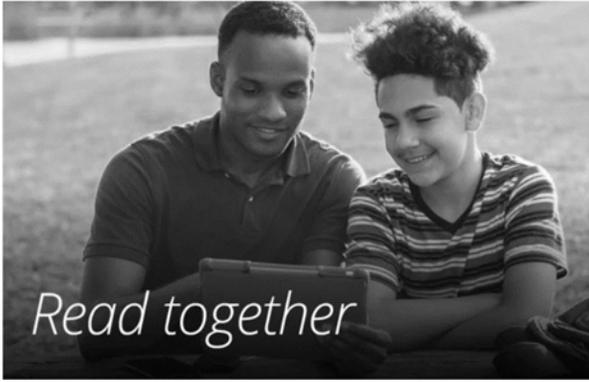
(Yes, it appears four times!)



Students Reached

An additional 1,970 (+8 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 25,266 kids. Demand continues to fuel growth; over 3,000 schools now wait for a program.

Reach more kids better.



A New Era in Mentoring

Over the past two years significant investments took place in order to develop and launch *Life Together*. New tools equip mentors to fully leverage maximum life change in every hour spent with students in literacy development, character formation, and life skills. A digital delivery platform provides program materials with efficiency and easy access, supported by our new technical support center in Colorado. A low, \$15/month scholarship enables access to *Life Together*—a small amount that unlocks tremendous potential.

Expenses and Income

Expenses

Total organizational expenses declined 8.7 percent, mainly due to organizational structure changes. Specifically, we continued to shift staff positions from our Zeeland, Michigan support center to our regional offices. Many times we replaced full time roles with multiple part time roles, which increased staff count while decreasing staff expense. Additionally, we arrived at the end of many product development expenses as we entered *Life Together's* launch phase.

Income and Net Income

Income (Total Support and Revenue) increased 17 percent, due to a sharp rise in contributions. At the same time, fundraising cost allocations dropped by 20.4 percent due to mid-year staff transitions. Our new and highly capable National Development Director, Kara Nguyen, has made an immediate positive impact on fundraising. As expected, the funds received from pledges made (and booked) in previous years declined.

Also consistent with projections, net income (Change in Net Assets) decreased for the second consecutive year due to cash received from pledges made two years ago. With most of the multi-year gifts expiring, we anticipate returning to a slightly positive net income this year. As monthly scholarship income becomes a more substantial income stream, peaks and troughs shown in our annual financial reports will diminish. However, with *Life Together* launching later than originally expected, income from scholarships is approximately one year off plan, which necessitated using short term funds from our line of credit.

Overall Financial Health

Balance Sheet Strength

The \$1.9 million in total assets, despite a 17.8 percent decline, remains strong. Liquidity remains high; cash, prepaid expenses, receivables, and investments total \$1.5 million. An expected drop (49.6%) in contributions receivable occurred as we received donation cash this year from pledges made in prior years. Payments from multi-year gifts will continue to diminish receivables over the next year unless, of course, new similar pledges arrive.

Endowment

We received a 5 percent cash draw from our Endowment, an important source of operating funds for which we feel grateful to the generous donors who made it possible.

Reach more kids better.

KIDS HOPE USA

Statements of Financial Position

	September 30,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 83,272	\$ 248,232
Accounts receivable, net of allowance of \$8,475 and \$1,500 at September 30, 2018 and 2017, respectively	4,542	10,317
Prepaid expenses	13,268	33,836
Investment	1,282	2,610
Contributions receivable	365,500	725,097
Trademark and website domains	20,000	20,000
Investments held for long-term purposes	1,049,911	1,061,442
	1,537,775	2,101,534
Furniture, equipment and amortizable assets		
Furniture and fixtures	41,526	36,512
Office equipment	7,008	7,008
Computer and technology systems	495,974	195,997
Website development costs	-	51,300
Training and promotional media	-	35,411
Life Together system (under development)	58,450	145,354
Accumulated depreciation and amortization	(240,795)	(261,984)
	362,163	209,598
Total Assets	\$ 1,899,938	\$ 2,311,132
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 121,529	\$ 70,125
Accrued payroll and payroll taxes	57,383	106,232
Deferred revenue	-	10,975
Line of credit	100,000	-
	278,912	187,332
Net Assets		
Unrestricted		
Undesignated	173,553	805,945
Designated - endowment	25,989	26,273
Net investment in furniture and equipment	362,163	209,598
	561,705	1,041,816
Temporarily Restricted	83,502	106,315
Permanently Restricted	975,819	975,669
	1,059,321	1,122,984
Total Net Assets	1,621,026	2,123,800
Total Liabilities and Net Assets	\$ 1,899,938	\$ 2,311,132

See accompanying notes to financial statements

KIDS HOPE USA

Statements of Activities

For the Years Ended September 30,

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Affiliate and training fees	\$ 99,768	\$ -	\$ -	\$ 99,768	\$ 172,648	\$ -	\$ -	\$ 172,648
Less: scholarships and discounts	(100)	-	-	(100)	(4,150)	-	-	(4,150)
	99,668	-	-	99,668	168,498	-	-	168,498
Contributions	1,152,934	81,220	150	1,234,304	620,205	241,090	40,769	902,064
Gain on disposal of assets	-	-	-	-	155	-	-	155
Sales	3,981	-	-	3,981	5,822	-	-	5,822
Gifts in kind	8,432	-	-	8,432	5,980	-	-	5,980
Investment income	1,631	47,676	-	49,307	2,464	107,755	-	110,219
	1,266,646	128,896	150	1,395,692	803,124	348,845	40,769	1,192,738
Total Support and Revenue								
RECLASSIFICATIONS								
Net assets released for satisfaction of purpose restrictions	151,709	(151,709)	-	-	384,944	(384,944)	-	-
EXPENSES								
Program services	1,381,694	-	-	1,381,694	1,505,176	-	-	1,505,176
Supporting activities								
Management and general	317,996	-	-	317,996	325,402	-	-	325,402
Fund-raising	198,776	-	-	198,776	249,589	-	-	249,589
	1,898,466	-	-	1,898,466	2,080,167	-	-	2,080,167
Total Expenses								
Change in Net Assets	(480,111)	(22,813)	150	(502,774)	(892,099)	(36,099)	40,769	(887,429)
Net Assets, Beginning of Year	1,041,816	106,315	975,669	2,123,800	1,933,915	142,414	934,900	3,011,229
	\$ 561,705	\$ 83,502	\$ 975,819	\$ 1,621,026	\$ 1,041,816	\$ 106,315	\$ 975,669	\$ 2,123,800
Net Assets, End of Year								

See accompanying notes to financial statements

KIDS HOPE USA

Statements of Functional Expenses

For the Years Ended September 30,

	2018				2017			
	Program	Management and General	Fund- Raising	Total	Program	Management and General	Fund- Raising	Total
Salaries and wages	\$ 796,434	\$ 124,937	\$ 96,017	\$ 1,017,388	\$ 928,846	\$ 155,372	\$ 100,259	\$ 1,184,477
Pension plan contributions	28,749	4,510	3,466	36,725	32,233	5,392	3,479	41,104
Other employee benefits	143,214	22,466	17,267	182,947	127,284	21,291	13,739	162,314
Payroll taxes	66,211	10,387	7,982	84,580	74,606	12,480	8,052	95,138
Professional services - accounting	-	31,540	-	31,540	-	13,085	-	13,085
Professional services - investment management fees	-	10,420	-	10,420	-	10,014	-	10,014
Professional services - legal	-	2,958	-	2,958	-	168	-	168
Professional services - other	77,350	392	158	77,900	86,420	26,874	29,568	142,862
Advertising and promotion	17,821	-	5,900	23,721	6,401	1,101	-	7,502
Office expenses	10,286	39,312	9,829	59,427	39,944	20,242	52,658	112,844
Information technology	68,929	13,085	6,951	88,965	34,683	5,457	5,143	45,283
Occupancy	33,051	7,082	7,082	47,215	30,155	6,333	6,333	42,821
Travel	56,238	4,687	32,806	93,731	57,035	10,001	14,737	81,773
Conferences, conventions and meetings	30,593	25,571	-	56,164	60,534	23,488	-	84,022
Fund-raising events	-	-	-	-	-	-	9,862	9,862
Depreciation and amortization	52,818	11,318	11,318	75,454	27,035	5,759	5,759	38,553
Insurance	-	9,331	-	9,331	-	8,345	-	8,345
Total Expenses	\$ 1,381,694	\$ 317,996	\$ 198,776	\$ 1,898,466	\$ 1,505,176	\$ 325,402	\$ 249,589	\$ 2,080,167

See accompanying notes to financial statements

KIDS HOPE USA

Statements of Cash Flows

	For the Years Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (502,774)	\$ (887,429)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions for long-term purposes	(150)	(40,769)
Investment gains	(24,477)	(85,807)
Increase (decrease) in allowance for doubtful accounts	6,975	(12,563)
Depreciation and amortization	75,454	38,553
Gain on sale of equipment	-	(155)
Change in:		
Accounts receivable	(1,200)	26,006
Prepaid expenses	20,568	(3,403)
Contributions receivable	359,597	847,807
Accounts payable	51,404	37,939
Accrued payroll and payroll taxes	(48,849)	55,060
Deferred revenue	(10,975)	7,170
	(74,427)	(17,591)
Net Cash Used by Operating Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	100,000	-
	100,000	-
Net Cash Provided by Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions for long-term purposes	150	40,769
Proceeds from sales of investments	142,906	543,340
Proceeds from sale of equipment	-	250
Purchases of investments	(105,570)	(560,759)
Purchases of furniture and equipment	(228,019)	(174,891)
	(190,533)	(151,291)
Net Cash Used by Investing Activities		
Change in Cash and Cash Equivalents	(164,960)	(168,882)
Cash and Cash Equivalents, Beginning of Year	248,232	417,114
	\$ 83,272	\$ 248,232
Cash and Cash Equivalents, End of Year		

See accompanying notes to financial statements

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of all cash on deposit and highly liquid investments. Balances in the bank accounts may at times exceed federally insured limits. KHUSA has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk.

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, \$8,475 and \$1,500 at September 30, 2018 and 2017, 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. For the years ended September 30, 2018 and 2017, past due accounts totaled \$12,275 and \$1,800, 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, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued

PREPAID EXPENSES

Prepaid expenses at September 30, 2018 and 2017 consist of expenditures for services, insurance and facilities rent and expenditures for services, insurance, facilities rent, event and other costs, respectively, paid prior to the end of the fiscal year but which benefit the following fiscal year.

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, 2018 and 2017; there is, therefore, no allowance for doubtful promises to give.

FURNITURE, EQUIPMENT AND AMORTIZABLE ASSETS

Property and equipment is reported at cost, estimated cost or fair value. Expenditures for property and equipment in excess of \$1,000 and having estimated useful lives of three years or more are capitalized at cost when purchased. Donated items are reported at their estimated fair values as of the date the gifts are received. Depreciation is reported using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Depreciation expense was \$75,454 and \$38,553 for the years ended September 30, 2018 and 2017, 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. Because of the transition from affiliate fees to the Life Together program during the year ended September 30, 2018, there is no deferred revenue at September 30, 2018.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued

NET ASSETS

The financial statements report amounts by class of net assets as follows:

UNRESTRICTED NET ASSETS are those currently available for ministry purposes under the direction of the board (undesignated net assets) and those designated by the board for specific use, and those invested in furniture and equipment.

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 result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of the KHUSA board or its management.

SUPPORT AND REVENUE

Contributions are recorded when cash is received, unconditional promises are made or when 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. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. 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 statements of activities as net assets released from restrictions.

Contributions of assets other than cash and services are reported at their estimated fair value. KHUSA reports donations of property and equipment as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with restrictions regarding their use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired and 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.

All other revenues are recorded when earned.

CONTRIBUTED GOODS

For the years ended September 30, 2018 and 2017, KHUSA received donated goods related to fund-raising events totaling \$7,840 and \$-0-, respectively.

CONTRIBUTED SERVICES

For the years ended September 30, 2018 and 2017, contributed services that require specialized skills are reflected in the statements of activities at their estimated fair value of \$592 and \$5,980, respectively.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued

CONTRIBUTED SERVICES, continued

During the years ended September 30, 2018 and 2017, approximately 50,532 and 46,590 unpaid volunteers contributed an estimated 1,061,172 and 978,430 hours, respectively. For the years ended September 30, 2018 and 2017, management estimates the total value of volunteer services to be approximately \$26,200,300 and \$23,619,300, respectively. However, the value of these services is not reflected in the financial statements because the services do not meet the definition of donated professional services under generally accepted accounting principles. Volunteer services include mentoring children and performing other duties related to the KHUSA program.

FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are reported when incurred. The cost of providing the various program services and supporting activities have been presented on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities, benefitting from those expenditures.

3. CONTRIBUTIONS RECEIVABLE

Promises to give are reported at their realizable value, which approximates their net present value at September 30, 2018 and 2017. Contributions receivable consist of seven promises to give from various individuals, businesses and foundations for both years ended September 30, 2018 and 2017. 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,	
	2018	2017
Amounts due in:		
Less than one year	\$ 365,500	\$ 492,000
One year to five years	-	240,000
Estimated future cash flows of contributions receivable	365,500	732,000
Less:		
Unamortized discount	-	(6,903)
Net present value of contributions receivable	<u>\$ 365,500</u>	<u>\$ 725,097</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

4. INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES

Investment and investments held for long-term purposes consist of the following:

	September 30, 2018					
	Investment			Investments Held For Long-Term Purposes		
	Fair Value	Carrying Value	Unrealized (Loss)	Fair Value	Carrying Value	Unrealized Gain
Federal Home Loan Mortgage Corporation	\$ 1,282	\$ 1,282	\$ -	\$ -	\$ -	\$ -
Money market	-	-	-	3,090	3,090	-
Mutual funds	-	-	-	758,828	740,465	18,363
Exchange traded products	-	-	-	287,993	200,045	87,948
	<u>\$ 1,282</u>	<u>\$ 1,282</u>	<u>\$ -</u>	<u>\$ 1,049,911</u>	<u>\$ 943,600</u>	<u>\$ 106,311</u>
	September 30, 2017					
	Investment			Investments Held For Long-Term Purposes		
	Fair Value	Carrying Value	Unrealized (Loss)	Fair Value	Carrying Value	Unrealized Gain
Federal Home Loan Mortgage Corporation	\$ 2,610	\$ 2,701	\$ (91)	\$ -	\$ -	\$ -
Money market	-	-	-	10,080	10,080	-
Mutual funds	-	-	-	797,547	742,677	54,870
Exchange traded products	-	-	-	253,815	205,804	48,011
	<u>\$ 2,610</u>	<u>\$ 2,701</u>	<u>\$ (91)</u>	<u>\$ 1,061,442</u>	<u>\$ 958,561</u>	<u>\$ 102,881</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

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, 2018		
	Level 1	Level 2	Total
Federal Home Loan Mortgage Corporation	\$ -	\$ 1,282	\$ 1,282
CapTrust Investments	1,049,911	-	1,049,911
	<u>\$ 1,049,911</u>	<u>\$ 1,282</u>	<u>\$ 1,051,193</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

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

	September 30, 2017		
	Level 1	Level 2	Total
Federal Home Loan Mortgage Corporation	\$ -	\$ 2,610	\$ 2,610
CapTrust Investments	1,061,442	-	1,061,442
	\$ 1,061,442	\$ 2,610	\$ 1,064,052

Investment income consists of the following:

	For the Year Ended September 30, 2018		
	Investments	Endowment	Total
Dividends and interest	\$ 80	\$ 24,454	\$ 24,534
Net realized gains	-	21,006	21,006
Net unrealized (losses) gains	(37)	3,428	3,391
	43	48,888	48,931
Other bank interest	376	-	376
	\$ 419	\$ 48,888	\$ 49,307

	For the Year Ended September 30, 2017		
	Investments	Endowment	Total
Dividends and interest	\$ 135	\$ 23,930	\$ 24,065
Net realized gains	-	8,305	8,305
Net unrealized (losses) gains	(91)	77,594	77,503
	44	109,829	109,873
Other bank interest	346	-	346
	\$ 390	\$ 109,829	\$ 110,219

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.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

5. ENDOWMENT, continued

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.

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 deciding 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, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 48,502	\$ 975,819	\$ 1,024,321
Board-designated endowment funds	25,989	-	-	25,989
Total funds	\$ 25,989	\$ 48,502	\$ 975,819	\$ 1,050,310
	September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 59,750	\$ 975,669	\$ 1,035,419
Board-designated endowment funds	26,273	-	-	26,273
Total funds	\$ 26,273	\$ 59,750	\$ 975,669	\$ 1,061,692

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

5. ENDOWMENT, continued
CHANGES IN ENDOWMENT NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets				
September 30, 2016	\$ 13,632	\$ 10,599	\$ 934,900	\$ 959,131
Investment return				
Dividends and interest	420	23,510	-	23,930
Realized gains	150	8,155	-	8,305
Unrealized gains	1,504	76,090	-	77,594
Management fees	(172)	(9,842)	-	(10,014)
	1,902	97,913	-	99,815
Contributions	-	-	40,769	40,769
Board-designated resources	11,977	-	-	11,977
Endowment assets appropriated for expenditure	(1,238)	(48,762)	-	(50,000)
Endowment net assets, September 30, 2017	26,273	59,750	975,669	1,061,692
Investment return				
Dividends and interest	606	23,848	-	24,454
Realized gains	520	20,486	-	21,006
Unrealized gains	86	3,342	-	3,428
Management fees	(258)	(10,162)	-	(10,420)
	954	37,514	-	38,468
Contributions	-	-	150	150
Endowment assets appropriated for expenditure	(1,238)	(48,762)	-	(50,000)
Endowment net assets September 30, 2018	\$ 25,989	\$ 48,502	\$ 975,819	\$ 1,050,310

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

5. ENDOWMENT, continued
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. There were no such deficiencies at September 30, 2018 and 2017.

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 \$250,000 bank line of credit which is secured by all assets, matures in May 2020 and requires interest only payments. Amounts borrowed under this agreement bear interest at 25 points under the bank's prime rate, which was 5.0 percent at September 30, 2018. KHUSA borrowed \$100,000 under this line of credit during the year ended September 30, 2018. KHUSA was in compliance with all loan covenants at September 30, 2018.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

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 three percent of each eligible employee's compensation plus one percent to match employee contributions of at least that amount. Contributions to the plan during the years ended September 30, 2018 and 2017 were \$36,725 and \$41,104, respectively.

KHUSA paid \$182,947 and \$162,314 during the years ended September 30, 2018 and 2017, respectively, for employee group health, life and workers compensation insurance coverage.

8. LEASES

KHUSA leased its headquarters office space under an operating lease agreement on a twenty-four-month basis. This thirty-six-month lease expired in September 2018 and required monthly payments of \$3,219.

KHUSA leased new headquarters office space under an operating lease agreement in September 2018 for a 48-month term, requiring monthly payments of \$2,048.

KHUSA leased office space in Texas on a monthly basis, requiring monthly payments of \$50. This lease was terminated in February 2018.

KHUSA leased new office space in Texas under an operating lease agreement in April 2018 for a twelve-month term, requiring monthly payments of \$500.

KHUSA leased office equipment under an operating lease agreement in August 2014 for a 60-month term, requiring monthly payments of \$429.

KHUSA leased office equipment under an operating lease agreement in August 2010. This agreement was renewed in January 2018 for an additional 36-month term, continuing the original quarterly payment of \$126.

Total lease expense for the years ended September 30, 2018 and 2017 was \$49,580 and \$44,882, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ending September 30,	Lease Payments
2019	\$ 32,629
2020	25,080
2021	24,828
2022	22,528
Total	<u>\$ 105,065</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2018 and 2017

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	September 30,	
	2018	2017
Endowment	\$ 48,502	\$ 59,750
Scholarship	35,000	46,565
Total	<u>\$ 83,502</u>	<u>\$ 106,315</u>

10. CONCENTRATION

For the years ended September 30, 2018 and 2017, the top five donors provided 39 and 44 percent of total contributions, respectively.

11. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2018 and 2017, KHUSA paid \$1,902 and \$1,634, respectively, to Staal LLC, an entity owned and operated by the wife of the president and chief executive officer, for event planning related to the roll-out of the Life Together program.

12. SUBSEQUENT EVENTS

Management has evaluated for potential recognition or disclosure in these financial statements subsequent events and transactions occurring through January 9, 2019, the date these financial statements were available to be issued. No such significant events or transactions were identified.