



KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditors' Report

September 30, 2019 and 2018

KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditors' Report

September 30, 2019 and 2018



KIDS HOPE USA

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Kids Hope USA (a nonprofit organization), as of September 30, 2019 and 2018, 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 auditors' 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 auditors consider 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 Kids Hope USA as of September 30, 2019 and 2018 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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Management Discussion and Analysis on pages 2 and 3 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; we therefore do not express an opinion or provide any assurance regarding it.


Wyoming, Michigan
March 24, 2020

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KIDS HOPE USA
MANAGEMENT DISCUSSION AND ANALYSIS
For Fiscal Year 2018 - 2019

Karen Pearson, Ph.D., President, starting June 3, 2019

It is an honor to be serving as the president of Kids Hope USA and since starting in early June 2019, I have learned a lot about the mission, ministry, and operation of Kids Hope USA. Kids Hope invites volunteers from churches all over the country to love and serve their neighbors through mentoring children in local schools. The lives of thousands of children are enriched through one-on-one relationships with caring adults who tell them ‘you matter!’

Lesley Rhodes, principal at Adams Elementary in Arlington Texas knows firsthand the difference that Kids Hope mentors make in the lives of many of her students. *“The needs of students at Adams are so much bigger than academics. They need to bond with an adult who cares about them before they can focus on academics! They need to know someone is in their corner!”* That’s what Kids Hope USA is all about!

Completing a 3-year period of development. The end of FY2019 marked the conclusion of a 3-year period of development and launching of Kids Hope’s new funding model, called the scholarship provider. Since early 2016, Kids Hope has made significant investments in new on-line training materials, new mentoring resources, a redesigned website and program-support portal, new and expanded professional partnerships and new marketing materials all designed to support the growth of a new program platform called Life Together and the accompanying scholarship provider funding model. The organization secured significant funding for the creation and implementation of these new materials and was blessed with generous donors, many of whom made three-year pledges to fund this significant expansion of Kids Hope’s ministry.

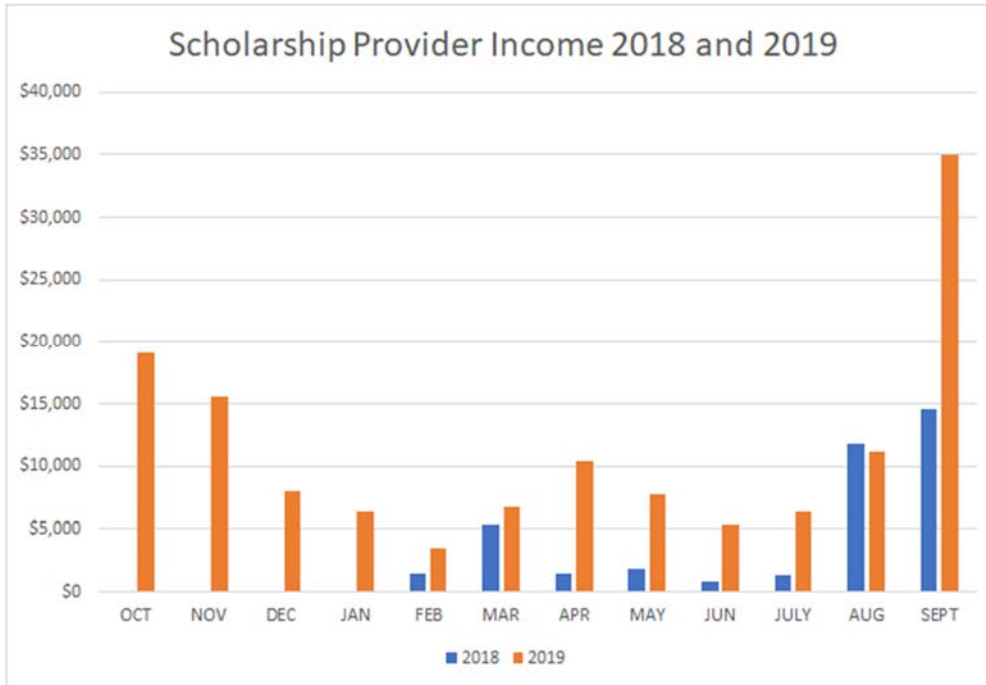
New Program Growth. Throughout the 2018-2019 fiscal year, Kids Hope staff recruited the largest number of new affiliates in Kids Hope’s history: 145 total, including 128 new programs and 17 new NEXT programs.

A Million Hours for Kids. As we do each spring, we conducted a thorough survey of our programs and 88% of them responded. The survey results confirm that we are mentoring more than 10,300 students each week throughout the academic year. Those mentors are part of 1,250 church-school partnerships in 37 states. Weekly mentoring, along with time invested by prayer partners, directors and other Kids Hope volunteers, adds up to more than 1,003,000 hours of volunteer time serving children by almost 22,000 adults. This is an incredible investment of time in the lives of thousands of children by our amazing volunteers.

Scholarship Provider Funding Model. Kids Hope developed a new funding model and FY2019 was the first full year of the implementation. The new funding model of a scholarship provider who contributes \$15/month (\$180 annually) to support each mentor-student relationship has the potential to be a significant source of sustaining financial support. This new trio of volunteers, a scholarship provider, a prayer partner and a mentor, aligns with the ‘give, pray, go’ missions strategy that many churches embrace to support local and global outreach ministries.

The new funding model was rolled out in two-parts. First, all new church affiliates since 2018 signed on to this funding model and second, we encouraged as many existing church partners to convert to the scholarship provider model too. At the end of 2019 there were 279 church-school partnerships operating under the new funding model and roughly 1,200 scholarship providers accounting for about \$158,000 of the financial support during FY2019. We are pleased to have this many scholarship providers, but the model is catching on more slowly than we’d hoped and we are working creatively to help churches recruit scholarship providers. The graph here shows the increase in scholarship provider income in FY2019 compared to the partial year of scholarships in FY2018. The increase in scholarship income from September 2018 to the September 2019 is encouraging.

KIDS HOPE USA
MANAGEMENT DISCUSSION AND ANALYSIS
For Fiscal Year 2018 - 2019



Expenses: With revenues not meeting budget goals as the year unfolded, we convened an internal expense management team that worked diligently to consider all areas of expenses. This group was able to reduce monthly expenses throughout the course of FY2019. These reductions came from multiple sources including operational savings like phone system and IT changes and staff savings from decreased travel. Even so, expenses were up 6.4% over FY2018, due mainly to a few new hires and higher accounting costs.

Income: Contributions and other sources of revenue totaled just over \$1.8 million in 2019. As expected, the funds received from pledges made in previous years declined. We received a five percent cash draw from our Endowment in January 2019. Additionally, working with a donor who released the restrictions on their endowment gift, the board used \$200,000 of those released funds to eliminate a line of credit established to assist in providing the unfunded development costs of the new model. We are thankful to have an endowment that serves as an important source of operating funds and we are grateful to the generous donors who made it possible.

Overall Financial and Program Health: Kids Hope USA is in a stable financial position. The \$1.5 million in total assets, despite a decline from FY2018, remains strong. Liquidity remains high; cash, prepaid expenses, receivables, and investments total \$1.25 million. We are thankful for many generous donors and we are stewarding our financial resources carefully.

We are thankful for all Kids Hope churches as they run amazing programs within their local schools, sending trained, caring mentors to support the wholistic development of children. As an organization, we are constantly looking to provide the best possible support and resources to churches and schools so that they have the best tools for all aspects of their Kids Hope partnerships, especially the mentoring. Many of our mentors and students say that the hour they spend together is the BEST hour of their week! May God continue to help us reach more kids through caring adults, stepping up to volunteer their time through Kids Hope USA.

KIDS HOPE USA

Statements of Financial Position

	September 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 89,102	\$ 83,272
Accounts receivable, net of allowance of \$1,091 and \$8,475 at September 30, 2019 and 2018, respectively	11,849	4,542
Prepaid expenses	4,617	13,268
Investment	235	1,282
Contributions receivable	339,750	365,500
Trademark and website domains	20,000	20,000
Investments held for long-term purposes	784,016	1,049,911
	1,249,569	1,537,775
Furniture, equipment and amortizable assets		
Furniture and fixtures	16,787	41,526
Office equipment	2,675	7,008
Computer and technology systems	537,203	495,974
Life Together system (under development)	-	58,450
Accumulated depreciation and amortization	(313,928)	(240,795)
	242,737	362,163
Total Assets	\$ 1,492,306	\$ 1,899,938
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 22,911	\$ 121,529
Accrued payroll and payroll taxes	53,977	57,383
Line of credit	-	100,000
Total Liabilities	76,888	278,912
Net Assets		
Without Donor Restrictions		
Undesignated	266,355	173,553
Board designated - endowment	-	25,989
Net investment in furniture, equipment and amortizable assets	242,737	362,163
	509,092	561,705
With Donor Restrictions	906,326	1,059,321
Total Net Assets	1,415,418	1,621,026
Total Liabilities and Net Assets	\$ 1,492,306	\$ 1,899,938

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Activities

For the Years Ended September 30,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Affiliate and training fees	\$ 85,790	\$ -	\$ 85,790	\$ 99,668	\$ -	\$ 99,668
Contributions	1,401,569	310,000	1,711,569	1,152,934	81,370	1,234,304
Sales	3,369	-	3,369	3,981	-	3,981
Gain on sale of furniture and equipment	1,129	-	1,129	-	-	-
Gifts in kind	-	-	-	8,432	-	8,432
Investment (loss) income	(728)	10,577	9,849	1,374	37,514	38,888
Total Support and Revenue	1,491,129	320,577	1,811,706	1,266,389	118,884	1,385,273
RECLASSIFICATIONS						
Net assets released for satisfaction of purpose restrictions	473,572	(473,572)	-	141,547	(141,547)	-
EXPENSES						
Program services	1,481,753	-	1,481,753	1,381,694	-	1,381,694
Management and general	361,923	-	361,923	307,577	-	307,577
Fund-raising	173,638	-	173,638	198,776	-	198,776
Total Expenses	2,017,314	-	2,017,314	1,888,047	-	1,888,047
Change in Net Assets	(52,613)	(152,995)	(205,608)	(480,111)	(22,663)	(502,774)
Net Assets, Beginning of Year	561,705	1,059,321	1,621,026	1,041,816	1,081,984	2,123,800
Net Assets, End of Year	\$ 509,092	\$ 906,326	\$ 1,415,418	\$ 561,705	\$ 1,059,321	\$ 1,621,026

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Functional Expenses

For the Years Ended September 30,

	2019				2018			
	Program Services	Management and General	Fund- Raising	Total	Program Services	Management and General	Fund- Raising	Total
Salaries and wages	\$ 892,674	\$ 155,808	\$ 83,400	\$ 1,131,882	\$ 796,434	\$ 124,937	\$ 96,017	\$ 1,017,388
Pension plan contributions	30,486	5,321	2,849	38,656	28,749	4,510	3,466	36,725
Other employee benefits	152,174	26,561	14,216	192,951	143,214	22,466	17,267	182,947
Payroll taxes	67,359	11,757	6,294	85,410	66,211	10,387	7,982	84,580
Professional services - accounting	-	61,160	-	61,160	-	31,540	-	31,540
Professional services - legal	-	-	-	-	-	2,958	-	2,958
Professional services - other	78,054	8,177	-	86,231	77,350	392	158	77,900
Advertising and promotion	7,171	-	2,387	9,558	17,821	-	5,900	23,721
Office expenses	16,767	37,447	7,569	61,783	10,286	39,313	9,829	59,428
Information technology	66,682	12,448	6,289	85,419	68,929	13,085	6,951	88,965
Occupancy	24,987	5,355	5,354	35,696	33,051	7,082	7,082	47,215
Travel	41,870	3,489	24,424	69,783	56,238	4,687	32,806	93,731
Conferences, conventions and meetings	6,204	1,540	-	7,744	30,593	25,571	-	56,164
Interest	-	2,560	-	2,560	-	-	-	-
Depreciation and amortization	97,325	20,855	20,856	139,036	52,818	11,318	11,318	75,454
Insurance	-	9,445	-	9,445	-	9,331	-	9,331
Total Expenses	\$ 1,481,753	\$ 361,923	\$ 173,638	\$ 2,017,314	\$ 1,381,694	\$ 307,577	\$ 198,776	\$ 1,888,047

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Cash Flows

	For the Years Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (205,608)	\$ (502,774)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions for long-term purposes	-	(150)
Gains from investments	(52,406)	(24,477)
(Decrease) increase in allowance for doubtful accounts	(7,384)	6,975
Depreciation and amortization	139,036	75,454
Gain on sale of furniture and equipment	(1,129)	-
Change in:		
Accounts receivable	77	(1,200)
Prepaid expenses	8,651	20,568
Contributions receivable	25,750	359,597
Accounts payable	(98,618)	51,404
Accrued payroll and payroll taxes	(3,406)	(48,849)
Deferred revenue	-	(10,975)
Net Cash Used by Operating Activities	(195,037)	(74,427)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	35,000	100,000
Payments on line of credit	(135,000)	-
Net Cash (Used) Provided by Financing Activities	(100,000)	100,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions for long-term purposes	-	150
Proceeds from sales of investments	954,310	142,906
Purchases of investments	(634,962)	(105,570)
Proceeds from sale of furniture and equipment	1,150	-
Purchases of furniture and equipment	(19,631)	(228,019)
Net Cash Provided (Used) by Investing Activities	300,867	(190,533)
Change in Cash and Cash Equivalents	5,830	(164,960)
Cash and Cash Equivalents, Beginning of Year	83,272	248,232
Cash and Cash Equivalents, End of Year	\$ 89,102	\$ 83,272
SUPPLEMENTARY DATA		
Cash paid for interest	\$ 2,560	\$ -

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

1. NATURE OF ORGANIZATION

Kids Hope USA (KHUSA) provides a proven model for churches and schools to partner together to support the development of young children through one-on-one mentoring relationships. Mentoring is a well-documented way to support the academic, social and emotional development of children. KHUSA recruits and trains volunteer mentors from churches to go into their neighborhood schools to meet one-on one with a child for one hour per week during the school day, throughout the academic year. KHUSA mentors invest in the lives of children who are identified by their teachers and counselors as needing the additional support and encouragement from another caring and consistent adult.

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, \$1,091 and \$8,475 at September 30, 2019 and 2018, 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, 2019 and 2018, past due accounts totaled \$4,870 and \$12,275, 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, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

PREPAID EXPENSES

Prepaid expenses at September 30, 2019 consist of expenditures for insurance, software services and other costs and at September 30, 2018 consist of expenditures for services, insurance and facilities rent, event and other costs 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. These discount rates are based on yields of U.S. treasury bills corresponding to the timing of the anticipated receipt of contributions receivable and range from 2.51 percent to 2.53 percent at September 30, 2019. 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, 2019 and 2018; there is, therefore, no allowance for doubtful promises to give.

FURNITURE, EQUIPMENT AND AMORTIZABLE ASSETS

Furniture, equipment and amortizable assets are reported at cost, estimated cost or fair value. Expenditures for furniture, equipment and amortizable assets 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 and amortization are 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 \$139,036 and \$75,454 for the years ended September 30, 2019 and 2018, respectively.

NET ASSETS

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes in net assets therein are classified and reported as follows:

NET ASSETS WITHOUT DONOR RESTRICTIONS are net assets available for use in general operations and not subject to donor or certain grantor-imposed restrictions.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

NET ASSETS, continued

NET ASSETS WITH DONOR RESTRICTIONS are net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource for which the resource was restricted has been fulfilled or both.

SUPPORT AND REVENUE

Contributions are recognized when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions of assets other than cash and services are reported at their estimated fair value. KHUSA reports donations of property and equipment as contributions without donor restriction unless the donor has restricted the donated asset to a specific purpose. Contributions of cash to acquire property are reported as contributions with donor restrictions.

All other revenues are recorded when earned.

CONTRIBUTED GOODS

For the years ended September 30, 2019 and 2018, KHUSA received donated goods related to fund-raising events totaling \$-0- and \$7,840, respectively.

CONTRIBUTED SERVICES

For the years ended September 30, 2019 and 2018, contributed services that require specialized skills are reflected in the statements of activities at their estimated fair value of \$-0- and \$592, respectively.

During the year ended September 30, 2019, 21,868 unpaid volunteers contributed an estimated 1,003,500 hours, having an estimated value of approximately \$25,519,400. 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. Because of a change in the methodology for determining the number of volunteers and hours of service, comparable information for the year ended September 30, 2018 is not available.

FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are reported when incurred, that is, when the purchased goods or services have been received.

The costs of program, management and fund-raising activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program, management and fund-raising activities benefitting from those expenditures.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

FUNCTIONAL ALLOCATION OF EXPENSES, continued

Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. At KHUSA the methods used to allocate costs among program and support functions vary depending upon the nature of the expense category. Compensation related expenses are allocated based on proportional estimates of paid time spent in each functional area of performance. Occupancy and depreciation costs are allocated to each functional area based on proportional estimates of facility and equipment usage. Other expenses are allocated based on the guidelines defining the nature of the program, management or fund-raising expenses and the associated estimates of time and effort.

CHANGE IN ACCOUNTING PRINCIPLE

On August 18, 2016, The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. KHUSA has adopted ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

LIQUIDITY AND AVAILABILITY

KHUSA has financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure as detailed below. The amounts shown below are net of financial assets required to meet donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

	September 30,	
	2019	2018
Cash and cash equivalents	\$ 89,102	\$ 83,272
Accounts receivable	11,849	4,542
Investment return of principal	235	1,077
Contributions receivable due within one year	175,000	365,500
Investments held for long-term purposes	784,016	1,049,911
Endowment spending-rate appropriations	-	50,000
Less:		
Net assets designated for endowment	-	(25,989)
Net assets restricted for endowment	(784,016)	(1,024,321)
Net assets restricted for scholarship	(122,310)	(35,000)
	<u>\$ 153,876</u>	<u>\$ 468,992</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at September 30, 2019 consist of three promises to give from two foundations. Contributions receivable at September 30, 2018 consist of seven promises to give from various individuals, businesses and foundations. 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,	
	2019	2018
Amounts due in:		
Less than one year	\$ 175,000	\$ 365,500
One year to five years	175,000	-
	<u>350,000</u>	<u>365,500</u>
Less: discount to net present value	<u>(10,250)</u>	<u>-</u>
Estimated future cash flows from contributions receivable	<u>\$ 339,750</u>	<u>\$ 365,500</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

4. INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES

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

September 30, 2019						
	Investment			Investments Held For Long-Term Purposes		
	Fair Value	Carrying Value	Unrealized Gain	Fair Value	Carrying Value	Unrealized Gain
Federal Home Loan Mortgage Corporation	\$ 235	\$ 235	\$ -	\$ -	\$ -	\$ -
Money market	-	-	-	9,807	9,807	-
Mutual funds	-	-	-	476,110	462,522	13,588
Exchange traded products	-	-	-	298,099	262,994	35,105
	\$ 235	\$ 235	\$ -	\$ 784,016	\$ 735,323	\$ 48,693
September 30, 2018						
	Investment			Investments Held For Long-Term Purposes		
	Fair Value	Carrying Value	Unrealized Gain	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
	\$ 1,282	\$ 1,282	\$ -	\$ 1,049,911	\$ 943,600	\$ 106,311

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019		
	Level 1	Level 2	Total
Federal Home Loan Mortgage Corporation	\$ -	\$ 235	\$ 235
CapTrust Investments	784,016	-	784,016
	<u>\$ 784,016</u>	<u>\$ 235</u>	<u>\$ 784,251</u>

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Notes to Financial Statements

September 30, 2019 and 2018

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

	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
	\$ 1,049,911	\$ 1,282	\$ 1,051,193

Investment (loss) income consists of the following:

	For the Year Ended September 30, 2019		
	Investments	Endowment	Total
Dividends and interest	\$ 32	\$ 24,206	\$ 24,238
Net realized (losses) gains	(17)	51,716	51,699
Net unrealized losses	(2)	(57,617)	(57,619)
Investment management fees	-	(8,611)	(8,611)
	13	9,694	9,707
Other bank interest	142	-	142
	\$ 155	\$ 9,694	\$ 9,849

	For the Year Ended September 30, 2018		
	Investments	Endowment	Total
Dividends and interest	\$ 80	\$ 24,454	\$ 24,534
Net realized gains	161	21,006	21,167
Net unrealized (losses) gains	(36)	3,428	3,392
Investment management fees	-	(10,420)	(10,420)
	205	38,468	38,673
Other bank interest	215	-	215
	\$ 420	\$ 38,468	\$ 38,888

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 the Michigan Uniform Prudent Management of Institutional Funds Act (MI-PMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At September 30, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, KHUSA retains in perpetuity:

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5. ENDOWMENT, continued

- (1) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the endowment and
- (2) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by KHUSA in a manner consistent with the standard of prudence prescribed by MI-PMIFA. KHUSA 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, 2019		
	Without Donor Restriction	With Donor Restrictions	Total
	\$	\$	\$
Board-designated endowment funds	-	-	-
Donor-restricted endowment funds			
Original donor-restricted gift amount	-	775,819	775,819
Accumulated investment gains	-	8,197	8,197
	<u>\$ -</u>	<u>\$ 784,016</u>	<u>\$ 784,016</u>
	September 30, 2018		
	Without Donor Restriction	With Donor Restrictions	Total
	\$	\$	\$
Board-designated endowment	25,989	-	25,989
Donor-restricted endowment			
Original donor-restricted gift amount	-	975,819	975,819
Accumulated investment gains	-	48,502	48,502
	<u>\$ 25,989</u>	<u>\$ 1,024,321</u>	<u>\$ 1,050,310</u>

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Notes to Financial Statements

September 30, 2019 and 2018

5. ENDOWMENT, continued
CHANGES IN ENDOWMENT NET ASSETS

	Without Donor Restriction	With Donor Restrictions		Total
		Accumulated Investment Gains	Original Donor- Restricted Gift Amount	
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
Investment return				
Dividends and interest	302	23,904	-	24,206
Realized gains	170	51,546	-	51,716
Unrealized losses	(1,231)	(56,386)	-	(57,617)
Management fees	(124)	(8,487)	-	(8,611)
	(883)	10,577	-	9,694
Endowment assets appropriated for expenditure	(25,106)	(50,882)	(200,000)	(275,988)
Endowment net assets September 30, 2019	\$ -	\$ 8,197	\$ 775,819	\$ 784,016

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Notes to Financial Statements

September 30, 2019 and 2018

5. ENDOWMENT, continued

FUNDS WITH DEFICIENCIES

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted MI-PMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At September 30, 2019 and 2018, funds with original gift values of \$775,819 and \$975,819, respectively, had fair values of \$784,015 and \$1,024,321 and thus there were no deficiencies reported in net assets with donor restrictions.

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 appropriates 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.

During both years ended September 30, 2019 and 2018, \$50,000 was appropriated from the endowment based on the formula described above. In addition, because a donor granted the release of restriction on an endowment contribution, an additional \$200,000 of contributions plus an additional \$25,989 of accumulated earnings was appropriated from the endowment during the year ended September 30, 2019. It is the intention of the board to restore these additional appropriated amounts to the endowment over time.

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 0.25 points under the bank's prime rate, which was 4.75 percent at September 30, 2019. KHUSA borrowed \$35,000 and \$100,000 under this line of credit during the years ended September 30, 2019 and 2018, respectively, repaying the entire \$135,000 balance during the year ended September 30, 2019. KHUSA was in compliance with all loan covenants at September 30, 2019.

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Notes to Financial Statements

September 30, 2019 and 2018

7. EMPLOYEE RETIREMENT PLAN

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, 2019 and 2018 were \$38,656 and \$36,725, respectively.

8. LEASES

KHUSA leased its headquarters office space under an operating lease agreement on a twenty-four-month basis. This 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 12-month term, requiring monthly payments of \$500. This lease was extended on a month-to-month basis in April 2019, requiring monthly payments of \$500 and was terminated in October 2019.

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.

KHUSA leased office equipment under an operating lease agreement in August 2019 on a month-to-month basis, requiring monthly payments of \$100.

Total lease expense for the years ended September 30, 2019 and 2018 was \$35,572 and \$49,580, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ending September 30,	Lease Payments
2020	\$ 25,580
2021	24,702
2022	22,528
Total	<u>\$ 72,810</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2019 and 2018

9. NET ASSETS WITH DONOR RESTRICTIONS

Changes in and year-end balances of net assets with donor restrictions are as follows:

	September 30, 2017	Contributions and Investment Income	Released From Restriction	September 30, 2018
Endowment	\$ 1,035,419	\$ 37,664	\$ 48,762	\$ 1,024,321
Scholarship	46,565	81,220	92,785	35,000
	\$ 1,081,984	\$ 118,884	\$ 141,547	\$ 1,059,321
	September 30, 2018	Contributions and Investment Income	Released From Restriction	September 30, 2019
Endowment	\$ 1,024,321	\$ 10,577	\$ 250,882	\$ 784,016
Scholarship	35,000	310,000	222,690	122,310
	\$ 1,059,321	\$ 320,577	\$ 473,572	\$ 906,326

10. CONCENTRATION

For the years ended September 30, 2019 and 2018, the top five donors provided 60 and 39 percent of total contributions, respectively.

11. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2019 and 2018, KHUSA paid \$-0- and \$1,902, respectively, to Staal LLC, an entity owned and operated by the wife of the former 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 March 24, 2020, the date these financial statements were available to be issued. Because of recent significant market declines, the approximate value of endowment investments as of the date of the independent auditors' report is \$690,000. Management deems the current securities market to be too volatile to determine whether or not the endowment investments have been permanently impaired. No other significant events or transactions were identified.