



KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditors' Report

September 30, 2021 and 2020

KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditors' Report

September 30, 2021 and 2020



KIDS HOPE USA

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INDEPENDENT AUDITORS' REPORT

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

OPINION

We have audited the financial statements of Kids Hope USA, which consist of the statements of financial position as of September 30, 2021 and 2020, the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kids Hope USA as of September 30, 2021 and 2020 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.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kids Hope USA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESTATEMENT OF FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2020

As discussed in Note 12 to the financial statements, the financial statements as of and for the year ended September 30, 2020 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kids Hope USA's ability to continue as a going concern for one year after the date that the financial statements are issued.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

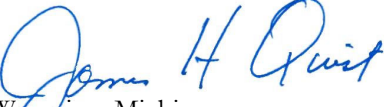
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- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kids Hope USA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kids Hope USA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 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; we therefore do not express an opinion or provide any assurance regarding it.



Wyoming, Michigan
February 10, 2022

KIDS HOPE USA

MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year 2021

Karen Pearson, Ph.D., President

The team members of Kids Hope USA did a fantastic job supporting our nearly 1,150 independent church-school partnerships during the 2020-2021 academic year. We are genuinely inspired by the outstanding dedication of our program directors, mentors, and prayer partners who persisted in supporting their students and school partners during a very uncertain and ever-changing year.

Throughout FY2021 we are grateful that our Kids Hope USA team remained closely engaged with our church-school programs to support them and provide resources as they creatively operated their individual programs among COVID-19 restrictions. Throughout the 2020-2021 academic year, a small number of programs operated as usual with in-person mentoring in the school. However, most of our programs were not able to mentor as usual in schools and employed online mentoring and pen-pal, letter-writing communications to continue the mentoring relationships. Our program directors and mentors have reported that that they have never felt more connected to the overall mission and ministry of Kids Hope USA than they have in the last year.

In addition, the need for mentoring has only increased as we've navigated the ups and downs of the pandemic because many more children are struggling academically, socially, and emotionally. We are thrilled that 36 churches stepped up to become new partners during the past year, and we are grateful to have new partnerships in three new states. Nearly 20 churches expanded their mentoring to new schools in their areas. As we begin the 2021-2022 school year, many of our current programs have brought on new mentors and prayer partners to serve the increased needs of their schools that in some cases are referring double and triple the number of students. In the last 18 months, many organizations, churches, and businesses closed their doors due to the instability of the COVID-19 pandemic and Kids Hope USA is grateful to our many donors, church and school partners, and our team for continuing to work hard on behalf of this ministry.

Volunteer Hours for Kids: Since this year was so different, our church-school partnerships connected volunteer mentors to mentor and connect with children in several different settings including in-person, virtual and pen-pal communications. Based on the responses we got, we've made a set of calculations for the volunteer hours and the value of those hours given through Kids Hope USA programs. Largely due to many pandemic-related visitor restrictions, our church partners had many fewer volunteers that were able to mentor than in past years. According to survey responses, we estimate that 7,600 volunteers served for 280,000 hours of volunteer time throughout the 2020-2021 academic year. As we did last year, we adjusted our estimates to reflect the significant challenges to Kids Hope USA mentoring programs due to the pandemic. Even so, this is an incredible investment of time in the lives of thousands of children by the network of amazing volunteers in Kids Hope USA programs.

Income, Expense Management and Payroll Protection Program: Contributions and other sources of revenue totaled just over \$1.8 million in 2021. Of that, nearly \$700k is attributed to the two Payroll Protection Program (PPP) loans from the Small Business Administration that have been fully forgiven and ERTC (employee retention tax credit). We received a roughly 2% cash draw from our Endowment in September 2021. The remaining three percent that we were eligible to use, was left in the endowment to be treated as the second of our repayments to the large draw that was taken in early 2019. We are thankful to have an endowment that serves as an important source of operating funds and we are grateful to the generous donors

KIDS HOPE USA

MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year 2021

who made it possible. Annual expenses were down about \$200k from the planned budget thanks to careful spending by all staff and intentional cost-cutting measures by the leadership team. Most significantly though, in April 2021, the organizational structure was reshaped into teams and roles that now provide better focus, efficiency, collaboration, and consistency to the work of each team member. We continue to refine and adjust these roles to best meet the needs of Kids Hope USA using the skills and time of our current staffing. We are eager to see our operational funding increase through increased fundraising with generous donors so that we can support new team members in key roles that will catalyze additional growth in partnerships across the country.

Overall Financial and Program Health: Kids Hope USA is in a stable financial position. The \$1.62 million in total net assets, represents an increase compared to the \$1.07 million of total net assets in FY2020. We are thankful for many generous donors, and we are stewarding our financial resources carefully.

We ask God's blessings on our whole organization and especially on the mentoring relationships with students across the country. In this time of great need, may Christ-followers continue to step up to volunteer their time to build relationships that can help transform the lives of children through Kids Hope USA programs.

KIDS HOPE USA

Statements of Financial Position

	September 30,	
	2021	2020
ASSETS		
Cash and cash equivalents	\$ 308,728	\$ 173,417
Accounts receivable, net of allowance of \$-0- and \$1,091, respectively	194,116	11,434
Prepaid expenses	4,310	5,837
Contributions receivable	205,000	251,372
Trademark and website domains	20,000	20,000
Investments held for long-term purposes	927,515	810,051
	1,659,669	1,272,111
Furniture, equipment and amortizable assets		
Furniture and fixtures	12,924	12,924
Computer and technology systems	519,434	519,434
Accumulated depreciation and amortization	(514,458)	(423,094)
	17,900	109,264
Total Assets	\$ 1,677,569	\$ 1,381,375
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 5,368	\$ 6,397
Accrued payroll and related liabilities	47,909	53,100
Loan payable	-	247,100
Total Liabilities	53,277	306,597
Net Assets		
Without Donor Restrictions		
Undesignated	407,542	(215,872)
Net investment in furniture, equipment and amortizable assets	17,900	109,264
	425,442	(106,608)
With Donor Restrictions - Note 12	1,198,850	1,181,386
Total Net Assets	1,624,292	1,074,778
Total Liabilities and Net Assets	\$ 1,677,569	\$ 1,381,375

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Activities

	Years Ended September 30,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Affiliate and training fees	\$ 81,565	\$ -	\$ 81,565	\$ 43,805	\$ -	\$ 43,805
Contributions	713,035	150,000	863,035	910,806	150,000	1,060,806
Small Business Association grant and federal employee retention tax credit	691,216	-	691,216	-	-	-
Sales	499	-	499	3,641	-	3,641
Gain on sale of furniture and equipment	-	-	-	1,000	-	1,000
Gifts in kind	25,500	-	25,500	14,250	-	14,250
Investment income	16	142,464	142,480	34	46,035	46,069
Total Support and Revenue	1,511,831	292,464	1,804,295	973,536	196,035	1,169,571
RECLASSIFICATIONS						
Net assets released for satisfaction of purpose restrictions - Note 12	275,000	(275,000)	-	270,975	(270,975)	-
EXPENSES						
Program	755,043	-	755,043	1,071,081	-	1,071,081
Management and general	326,791	-	326,791	294,634	-	294,634
Fund-raising	172,947	-	172,947	146,544	-	146,544
Total Expenses	1,254,781	-	1,254,781	1,512,259	-	1,512,259
Change in Net Assets	532,050	17,464	549,514	(267,748)	(74,940)	(342,688)
Net Assets, Beginning of Year	(106,608)	1,181,386	1,074,778	161,140	1,256,326	1,417,466
Net Assets, End of Year - Note 12	\$ 425,442	\$ 1,198,850	\$ 1,624,292	\$ (106,608)	\$ 1,181,386	\$ 1,074,778

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Functional Expenses

Years Ended September 30,

	2021				2020			
	Program	Management and General	Fund- Raising	Total	Program	Management and General	Fund- Raising	Total
Salaries and wages	\$ 496,433	\$ 172,254	\$ 124,391	\$ 793,078	\$ 684,757	\$ 146,596	\$ 87,960	\$ 919,313
Pension plan contributions	19,429	6,741	4,868	31,038	25,607	5,482	3,289	34,378
Other employee benefits	17,273	5,994	4,328	27,595	66,806	14,302	8,582	89,690
Payroll taxes	38,305	13,291	9,598	61,194	51,061	10,931	6,559	68,551
Professional services - accounting	-	48,750	-	48,750	-	42,903	-	42,903
Professional services - legal	-	1,047	-	1,047	-	899	-	899
Professional services - other	14,737	4,167	-	18,904	38,938	7,452	-	46,390
Advertising and promotion	6,703	-	1,628	8,331	3,664	-	1,161	4,825
Office	10,937	33,441	3,598	47,976	8,068	20,497	4,326	32,891
Information technology	38,684	11,586	6,463	56,733	47,368	10,205	5,303	62,876
Occupancy	18,096	3,877	3,878	25,851	18,031	3,864	3,864	25,759
Travel	841	70	491	1,402	9,392	783	5,479	15,654
Conferences, conventions and meetings	29,650	-	-	29,650	23,958	1,320	-	25,278
Depreciation and amortization	63,955	13,705	13,704	91,364	93,431	20,021	20,021	133,473
Insurance	-	11,868	-	11,868	-	9,379	-	9,379
Total Expenses	\$ 755,043	\$ 326,791	\$ 172,947	\$ 1,254,781	\$ 1,071,081	\$ 294,634	\$ 146,544	\$ 1,512,259

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Cash Flows

	Years Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 549,514	\$ (342,688)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions of marketable securities	-	(2,182)
Forgiveness of loans payable	(512,300)	-
Gains from investments	(137,416)	(36,091)
Gain on sale of furniture and equipment	-	(1,000)
Decrease in allowance for doubtful accounts	(1,091)	-
Depreciation and amortization	91,364	133,473
Change in:		
Accounts receivable	(181,591)	415
Prepaid expenses	1,527	828
Contributions receivable	46,372	88,378
Accounts payable	(1,029)	(16,514)
Accrued payroll and related liabilities	(5,191)	(877)
Net Cash Used by Operating Activities	(149,841)	(176,258)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	229,878	762,057
Purchases of investments	(209,926)	(749,584)
Proceeds from sale of furniture and equipment	-	1,000
Net Cash Provided by Investing Activities	19,952	13,473
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt	265,200	247,100
Net Cash Provided by Financing Activities	265,200	247,100
Change in Cash and Cash Equivalents	135,311	84,315
Cash and Cash Equivalents, Beginning of Year	173,417	89,102
Cash and Cash Equivalents, End of Year	\$ 308,728	\$ 173,417

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Notes to Financial Statements

September 30, 2021 and 2020

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)(1) 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. For the years ended September 30, 2021 and 2020, the allowance for doubtful accounts is \$-0- and \$1,091, respectively.

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, 2021 and 2020, past due accounts totaled \$193,666 and \$12,525, respectively. Included in accounts receivable at September 30, 2021 are federal employee retention tax credits totaling \$178,916 for which KHUSA has not received payment but are deemed by management to be fully collectible. 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, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued

PREPAID EXPENSES

Prepaid expenses consist of the office rent deposit and expenditures for insurance and software services at September 30, 2021 and 2020 paid prior to the end of the fiscal year but which benefit the following fiscal year.

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 is 2.51 percent at September 30, 2021. 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, 2021 and 2020; there is, therefore, no allowance for doubtful promises to give.

INVESTMENTS HELD FOR LONG-TERM PURPOSES

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.

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 \$2,500 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 \$91,364 and \$133,473 for the years ended September 30, 2021 and 2020, 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. The governing board has not designated any net assets without donor restrictions for specific purposes.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2021 and 2020

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 the 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.

IN-KIND CONTRIBUTIONS

For the years ended September 30, 2021 and 2020, contributed goods are reflected in the statements of activities at their estimated fair value of \$500 and \$-0-, respectively.

CONTRIBUTED SERVICES

For the years ended September 30, 2021 and 2020, contributed services that require specialized skills are reflected in the statements of activities at their estimated fair value of \$25,000 and \$14,250, respectively.

During the years ended September 30, 2021 and 2020, 7,587 and 19,836 unpaid volunteers contributed an estimated 279,295 and 782,400 hours, respectively, having an estimated value of approximately \$7,971,100 and \$21,281,800, respectively. 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, 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, 2021 and 2020

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.

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,	
	2021	2020
Cash and cash equivalents	\$ 308,728	\$ 173,417
Accounts receivable	194,116	11,434
Contributions receivable due within one year	205,000	180,000
Investments held for long-term purposes	927,515	810,051
Less:		
Net assets restricted for endowment	(927,515)	(810,051)
Net assets restricted for scholarship	(146,335)	(116,335)
	<u>\$ 561,509</u>	<u>\$ 248,516</u>

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at September 30, 2021 and 2020 consist of promises to give from five and four foundations respectively. See Note 2 for a description of the accounting policies for contributions receivable. Promises to give are expected to be collected as follows:

	September 30,	
	2021	2020
Amounts due in:		
Less than one year	\$ 205,000	\$ 180,000
One year to five years	-	75,000
	<u>205,000</u>	<u>255,000</u>
Less: discount to net present value	<u>-</u>	<u>(3,628)</u>
Estimated future cash flows from contributions receivable	<u>\$ 205,000</u>	<u>\$ 251,372</u>

KIDS HOPE USA

Notes to Financial Statements

September 30, 2021 and 2020

4. INVESTMENTS HELD FOR LONG-TERM PURPOSES

Investments held for long-term purposes consist of the following:

	September 30, 2021		
	Fair Value	Carrying Value	Unrealized Gain
Money market	\$ 5,967	\$ 5,967	\$ -
Fixed income funds	365,789	362,109	3,680
Equity funds	555,759	361,431	194,328
	<u>\$ 927,515</u>	<u>\$ 729,507</u>	<u>\$ 198,008</u>

	September 30, 2020		
	Fair Value	Carrying Value	Unrealized Gain
Money market	\$ 8,451	\$ 8,451	-
Fixed income funds	291,449	279,689	11,760
Equity funds	510,151	423,158	86,993
	<u>\$ 810,051</u>	<u>\$ 711,298</u>	<u>\$ 98,753</u>

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.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2021 and 2020

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

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.

Investment income consists of the following:

	Year Ended September 30, 2021		
	General	Endowment	Total
Dividends and interest	\$ 16	\$ 13,992	\$ 14,008
Realized gains	-	38,160	38,160
Unrealized gains	-	99,255	99,255
Investment management fees	-	(8,943)	(8,943)
	<u>\$ 16</u>	<u>\$ 142,464</u>	<u>\$ 142,480</u>

	Year Ended September 30, 2020		
	General	Endowment	Total
Dividends and interest	\$ 34	\$ 17,668	\$ 17,702
Realized losses	-	(13,968)	(13,968)
Unrealized gains	-	50,059	50,059
Investment management fees	-	(7,724)	(7,724)
	<u>\$ 34</u>	<u>\$ 46,035</u>	<u>\$ 46,069</u>

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, 2021 and 2020, there were no such donor stipulations. As a result of this interpretation, KHUSA retains in perpetuity:

- (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;

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5. ENDOWMENT, continued

- (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.

The endowment consists of donor restricted contributions and accumulated investment gains deemed to be restricted until appropriated for expenditure as follows:

	September 30,	
	2021	2020
Donor-restricted endowment funds		
Original donor-restricted contributions	\$ 821,131	802,744
Accumulated investment gains	\$ 106,384	7,307
	<u>\$ 927,515</u>	<u>\$ 810,051</u>

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5. ENDOWMENT, continued
CHANGES IN ENDOWMENT NET ASSETS

	Donor-Restricted		
	Accumulated		
	Investment		
	Gains	Contributions	Total
Endowment net assets			
September 30, 2019	\$ 8,197	\$ 775,819	\$ 784,016
Investment return			
Dividends and interest	17,668	-	17,668
Realized losses	(13,968)	-	(13,968)
Unrealized gains	50,059	-	50,059
Management fees	(7,724)	-	(7,724)
	46,035	-	46,035
Endowment assets appropriated for expenditure	(46,925)	26,925	(20,000)
Endowment net assets, September 30, 2020	7,307	802,744	810,051
Investment return			
Dividends and interest	13,992	-	13,992
Realized gains	38,160	-	38,160
Unrealized gains	99,255	-	99,255
Management fees	(8,943)	-	(8,943)
	142,464	-	142,464
Endowment assets appropriated for expenditure	(43,387)	18,387	(25,000)
Endowment net assets September 30, 2021	\$ 106,384	\$ 821,131	\$ 927,515

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). KHUSA has interpreted MI-PMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At September 30, 2021 and 2020, funds with original gift values of \$821,131 and \$802,744, respectively, had fair values of \$927,515 and \$810,051, respectively, and thus there were no deficiencies in endowment net assets with donor restrictions.

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Notes to Financial Statements

September 30, 2021 and 2020

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 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 the years ended September 30, 2021 and 2020, \$43,387 and \$46,925, respectively, was appropriated from the endowment based on the formula described above. In addition, during the year ended September 30, 2019, because a donor granted the release of restriction on an endowment contribution, an additional \$200,000 of contributions plus an additional \$25,988 of accumulated earnings was appropriated from the endowment. Because it is the intention of the board to restore these additional appropriated amounts to the endowment over time, \$18,287 and \$26,925 of the funds appropriated from the endowment during the years ended September 30, 2021 and 2020, respectively, was restored to the original donor-restricted contributions portion of the endowment.

6. LOAN PAYABLE

Loan payable consisted of a federal Paycheck Protection Program loan dated April 2020. This loan was unsecured with a fixed interest rate of 1.0 percent per annum, to be repaid in eighteen monthly payments of \$14,011 beginning August 2021. The loan was forgiven in January 2021 and is reported as grant revenue on the statement of activities for the year ended September 30, 2021.

In February 2021, KHUSA received a second loan of \$265,200 from the federal Paycheck Protection Program. This loan was unsecured with a fixed interest rate of 1.0 percent per annum, to be repaid in 48 monthly payments of \$5,594 beginning March 2022. The loan was forgiven in September 2021 and is reported as grant revenue on the statement of activities for the year ended September 30, 2021.

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7. LINE OF CREDIT

KHUSA had a \$250,000 bank line of credit which matured in November 2020. This agreement was secured by all assets, required interest-only monthly payments and bore interest at 0.25 points under the bank's prime rate. KHUSA obtained a \$150,000 bank line of credit in December 2020. This agreement is secured by all assets, requires interest-only monthly payments and bears interest at 0.25 points under the bank's prime rate, which was 4.0 percent per annum at September 30, 2021. KHUSA did not utilize these lines of credit during the years ended September 30, 2021 and 2020.

8. EMPLOYEE RETIREMENT PLAN

KHUSA provides retirement benefits to eligible staff through a 401(k) defined contribution retirement plan, matching 50 percent of each eligible employee's elective deferrals up to the equivalent of three percent of the employee's compensation. For both years ended September 30, 2021 and 2020, KHUSA also contributed the equivalent of one percent of each employee's compensation as a discretionary contribution to the plan. Contributions to the plan during the years ended September 30, 2021 and 2020 were \$31,038 and \$34,378, respectively.

9. LEASES

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

KHUSA leased 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 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, 2021 and 2020 was \$24,576 and \$26,880, respectively.

Future minimum lease payments of \$22,528 for the office lease agreement are payable during the year ended September 30, 2022.

10. NET ASSETS WITH DONOR RESTRICTIONS

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

	September 30, 2019	Contributions and Investment Income	Released From Restriction	September 30, 2020
Endowment	\$ 784,016	\$ 46,035	\$ 20,000	\$ 810,051
Program development	122,310	70,000	75,975	116,335
Time-restricted	350,000	80,000	175,000	255,000
	<u>\$ 1,256,326</u>	<u>\$ 196,035</u>	<u>\$ 270,975</u>	<u>\$ 1,181,386</u>

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Notes to Financial Statements

September 30, 2021 and 2020

10. NET ASSETS WITH DONOR RESTRICTIONS, continued

	September 30, 2020	Contributions and Investment Income	Released From Restriction	September 30, 2021
Endowment	\$ 810,051	\$ 142,464	\$ 25,000	\$ 927,515
Program development	116,335	100,000	70,000	146,335
Time-restricted	255,000	50,000	180,000	125,000
	<u>\$ 1,181,386</u>	<u>\$ 292,464</u>	<u>\$ 275,000</u>	<u>\$ 1,198,850</u>

11. CONCENTRATION

For the years ended September 30, 2021 and 2020, the top five donors provided 30 and 35 percent of total contributions, respectively.

12. PRIOR YEAR CORRECTIONS

The financial statements as of and for the year ended September 30, 2020 have been retroactively restated to correct net assets released from restriction for satisfaction of purpose restrictions. Financial statement balances have been affected by these corrections as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets at September 30, 2020			
As previously reported	124,274	950,504	1,074,778
Correct amount released from restriction	<u>(230,882)</u>	<u>230,882</u>	<u>-</u>
As corrected	<u>(106,608)</u>	<u>1,181,386</u>	<u>1,074,778</u>
Net assets released for satisfaction of purpose restrictions, year ended September 30, 2020			
As previously reported	501,857	(501,857)	-
Correct amount released from restriction	<u>(230,882)</u>	<u>230,882</u>	<u>-</u>
	<u>270,975</u>	<u>(270,975)</u>	<u>-</u>

13. SUBSEQUENT EVENTS

Management has evaluated for potential recognition or disclosure in these financial statements subsequent events and transactions occurring through February 10, 2022, the date these financial statements were available to be issued.

The COVID-19 pandemic has cast uncertainty over many things. While the long-term effects of the pandemic could negatively affect KHUSA's financial position, cash flows and results of activities, any such effects cannot be reasonably estimated at this time.