JAMES H. QUIST CPA PLC

KIDS HOPE USA

FINANCIAL STATEMENTS

With Independent Auditors' Report

September 30, 2023 and 2022

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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, comprising the statements of financial position as of September 30, 2023 and 2022, 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, 2023 and 2022 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.

CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 9 to the financial statements, Kids Hope USA adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842), as amended* during the year ended September 30, 2023. Our conclusion 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.

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In performing an audit in accordance with GAAS, we:

- 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.

James H Quist

Wyoming, Michigan
January 10, 2024

KIDS HOPE USA

MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year 2023

Karen Pearson, Ph.D., President

Mentoring Updates: Kids Hope USA has an incredible network of nearly 600 church partners that faithfully run mentoring programs in 780 elementary and middle schools in 38 states. We are thankful to the thousands of mentors who spend an hour each week pouring positive energy and encouragement into young children, one at a time. This network of incredible volunteers inspires us to invite more churches to help their congregations serve locally through this relationship-based ministry. For almost 30 years, volunteers, motivated by their faith convictions that all children matter to Jesus, have nurtured positive and encouraging mentoring relationships with children needing additional one-on-one attention to reach their full potential.

New Partners and Programs: We are thrilled that 54 churches and a small number of faith-friendly businesses and organizations have formed new programs with their neighborhood schools. Including the new partner programs, 103 programs began in schools that previously did not have a Kids Hope USA mentoring program. With these new programs, we estimate that more than 600 new children will be meeting with a mentor this year!

As we begin the 2023-2024 school year, many of our current programs have recruited more volunteer mentors to serve the increased need in their partner schools. We are encouraging our programs to "thrive" by nurturing all aspects of their mentoring ministries. We have thousands of committed mentors, and based on a survey completed this year of nearly 1,000 mentors, 90% of mentors have a committed prayer partner who regularly offers prayer for their relationship and for the school. 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.

Partner Volunteer Hours for Kids: According to survey responses, we estimate that over 10,600 volunteers served 545,000 hours of volunteer time throughout the 2022-2023 academic year. Because most of our programs told us that they were back up and running in a typical way, we have used our pre-pandemic historical estimates for volunteer hours. We are grateful for the incredible investment of time by volunteers in the lives of thousands of children through our Kids Hope USA partnerships.

Income and Expense Management: We are deeply grateful for the generous contributions from donors in FY 2023, that totaled $1.43 million. We received a roughly two percent cash draw from our endowment in August 2023. 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. Annual expenses were down about $281,000 from the planned budget thanks to wage and benefit savings from slightly delayed hiring timelines that we had originally planned and careful spending by all staff.

Overall Financial Health: Kids Hope USA is in a stable financial position. The $2.27 million in total net assets at the end of FY2023 represents an increase compared to the $2.07 million and $1.62 million of total net assets in FY2022 and FY2021 respectively. We are thankful for many generous donors and are stewarding our financial resources carefully.

"The one-on-one relationships created through mentorships can impact kids' outlooks on school and life. They know they have one more person in their corner to support them."

- Principal at Kids Hope USA Partner School

KIDS HOPE USA

Statements of Financial Position

	September 30, 2023		September 30, 2022	
ASSETS				
Cash and cash equivalents	$	778,519	$	618,120
Accounts receivable		18,700		24,600
Prepaid expenses		4,930		4,410
Contributions receivable		688,323		696,164
Trademark and website domains		20,000		20,000
Investments held for long-term purposes		798,865		732,338
		2,309,337		2,095,632
Furniture, equipment and amortizable assets				
Furniture and fixtures		6,819		10,359
Computer and technology systems		-		519,434
Office equipment		13,355		13,355
Operating lease right-of-use asset - Note 9		70,286		91,694
Accumulated depreciation and amortization		(6,905)		(527,346)
		83,555		107,496
Total Assets	$	2,392,892	$	2,203,128
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	$	11,535	$	10,509
Accrued payroll and related liabilities		34,993		30,515
Operating lease liability - Note 9		70,286		91,694
Total Liabilities		116,814		132,718
Net Assets				
Without Donor Restrictions				
Undesignated		615,944		518,520
Net investment in furniture, equipment and amortizable assets		13,269		15,802
		629,213		534,322
With Donor Restrictions		1,646,865		1,536,088
Total Net Assets		2,276,078		2,070,410
Total Liabilities and Net Assets	$	2,392,892	$	2,203,128

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Activities

	Years Ended September 30,					
	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Affiliate and training fees	$ 138,950	$ -	$ 138,950	$ 131,535	$ -	$ 131,535
Contributions	833,700	600,000	1,433,700	843,696	850,000	1,693,696
Sales	-	-	-	3,856	-	3,856
Gain on sale of furniture and equipment	-	-	-	248	-	248
Investment income (loss)	4,184	91,527	95,711	6,675	(170,177)	(163,502)
Total Support and Revenue	976,834	691,527	1,668,361	986,010	679,823	1,665,833
RECLASSIFICATIONS						
Net assets released for satisfaction of purpose restrictions	580,750	(580,750)	-	342,585	(342,585)	-
EXPENSES						
Program	883,632	-	883,632	740,170	-	740,170
Management and general	313,614	-	313,614	304,897	-	304,897
Fund-raising	265,447	-	265,447	174,648	-	174,648
Total Expenses	1,462,693	-	1,462,693	1,219,715	-	1,219,715
Change in Net Assets	94,891	110,777	205,668	108,880	337,238	446,118
Net Assets, Beginning of Year	534,322	1,536,088	2,070,410	425,442	1,198,850	1,624,292
Net Assets, End of Year	$ 629,213	$ 1,646,865	$ 2,276,078	$ 534,322	$ 1,536,088	$ 2,070,410

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Functional Expenses

	Years Ended September 30,							
	2023				2022			
	Program	Management and General	Fund-Raising	Total	Program	Management and General	Fund-Raising	Total
Salaries and wages	$ 680,631	$ 178,184	$ 213,162	$ 1,071,977	$ 563,233	$ 161,311	$ 136,305	$ 860,849
Retirement plan contributions	23,746	6,784	7,143	37,673	19,854	5,686	4,805	30,345
Other employee benefits	14,818	3,779	3,323	21,920	4,874	1,397	1,179	7,450
Payroll taxes	53,998	13,638	16,434	84,070	43,838	12,555	10,609	67,002
Professional services - accounting	-	30,945	-	30,945	-	34,558	-	34,558
Professional services - legal	-	2,830	-	2,830	-	-	-	-
Professional services - other	37,356	3,387	336	41,079	18,761	6,474	1,203	26,438
Advertising and promotion	6,292	2,535	8,329	17,156	8,831	-	2,114	10,945
Office	5,646	25,583	4,883	36,112	8,805	53,354	4,154	66,313
Information technology	29,875	10,659	4,474	45,008	38,987	11,145	6,441	56,573
Occupancy	15,606	7,467	3,721	26,794	18,262	3,913	3,913	26,088
Travel	11,108	3,191	953	15,252	3,077	256	1,795	5,128
Conferences, conventions and meetings	4,556	12,010	2,689	19,255	1,707	3,024	-	4,731
Depreciation and amortization	-	2,533	-	2,533	9,941	2,130	2,130	14,201
Insurance	-	10,089	-	10,089	-	9,094	-	9,094
Total Expenses	$ 883,632	$ 313,614	$ 265,447	$ 1,462,693	$ 740,170	$ 304,897	$ 174,648	$ 1,219,715

See independent auditors' report and accompanying notes to financial statements

KIDS HOPE USA

Statements of Cash Flows

	Years Ended September 30, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 205,668	$ 446,118
Adjustments to reconcile change in net assets to		
Realized and unrealized (gains) losses from investments	(79,172)	178,045
Gain on sale of furniture and equipment	-	(248)
Depreciation and amortization	2,533	14,201
Change in:		
Accounts receivable	5,900	169,516
Prepaid expenses	(520)	(100)
Contributions receivable	7,841	(491,164)
Accounts payable	1,026	5,141
Accrued payroll and related liabilities	4,478	(17,394)
Net Cash Provided by Operating Activities	147,754	304,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	267,431	493,463
Purchases of investments	(254,786)	(476,331)
Purchases of furniture and equipment	-	(13,355)
Proceeds from sale of furniture and equipment	-	1,500
Net Cash Provided by Investing Activities	12,645	5,277
Change in Cash and Cash Equivalents	160,399	309,392
Cash and Cash Equivalents, Beginning of Year	618,120	308,728
Cash and Cash Equivalents, End of Year	$ 778,519	$ 618,120

SUPPLEMENTARY DATA

During the year ended September 30, 2022, KHUSA acquired right-of-use assets under an operating lease agreement with a value of $93,889 as determined under *ASC Topic 842 Leases*. See also Note 9.

KIDS HOPE USA

Notes to Financial Statements

September 30, 2023 and 2022

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. Management believes all accounts receivable balances are fully collectible at September 30, 2023 and 2022; there is, therefore, no allowance for doubtful accounts receivable.

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, 2023 and 2022, past due accounts totaled $12,600 and $8,850, respectively. Past due accounts are subject to internal collection efforts. No late fee is assessed on past due accounts.

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, 2023 and 2022 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 0.10 percent at September 30, 2023. 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, 2023 and 2022; 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 $2,533 and $14,201 for the years ended September 30, 2023 and 2022, 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.

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
KHUSA recognizes revenue from fees assessed to affiliate churches on an annual basis. KHUSA's performance obligation consists of providing a school-based mentoring program, training for church directors, a mentor training curriculum, continuing education opportunities for the church director, ongoing support of programs with recruiting and training, access to mentoring materials and continual enhancement of training and mentoring resources. While KHUSA provides support to affiliates throughout the entire year, revenue from affiliate fees is deemed to be earned upon the completion of director training and upon annual renewal. Payment is due upon the signing of the affiliate agreement and annually thereafter. Annual partnership fees paid in advance are deferred to the period when training has been completed. Affiliate fees are non-refundable.

Contributions are recognized when cash, securities, 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. Property and equipment donated with restrictions regarding their use and contributions of cash to acquire property are reported as contributions with donor restrictions.

All other revenues are recorded when earned.

During the years ended September 30, 2023 and 2022, 10,651 and 9,649 unpaid volunteers contributed an estimated 544,989 and 522,672 hours, respectively, having an estimated value of approximately $17,330,700 and $15,654,000, 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.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2023	September 30, 2022
Cash and cash equivalents	$ 778,519	$ 618,120
Accounts receivable	18,700	24,600
Contributions receivable	615,000	345,000
Investments held for long-term purposes	798,865	732,338
Less:		
Net assets with donor restrictions		
For endowment	(798,865)	(732,338)
For scholarship	(558,000)	(118,750)
	$ 854,219	$ 868,970

KHUSA maintains a bank checking account and a money market account for liquidity management.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at September 30, 2023 and 2022 consist of promises to give from seven individuals and foundations and five 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, 2023	September 30, 2022
Amounts due in:		
Less than one year	$ 615,000	$ 345,000
One year to five years	75,000	355,000
	690,000	700,000
Less: discount to net present value	(1,677)	(3,836)
Estimated future cash flows from contributions receivable	$ 688,323	$ 696,164

4. INVESTMENTS HELD FOR LONG-TERM PURPOSES

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

September 30, 2023	Fair Value	Carrying Value	Unrealized Gain (Loss)
Money market	$ 5,428	$ 5,428	$ -
Fixed income funds	226,159	255,919	(29,760)
Equity funds	567,278	447,480	119,798
	$ 798,865	$ 708,827	$ 90,038

September 30, 2022	Fair Value	Carrying Value	Unrealized Gain (Loss)
Money market	$ 7,387	$ 7,387	$ -
Fixed income funds	226,001	260,120	(34,119)
Equity funds	498,950	460,444	38,506
	$ 732,338	$ 727,951	$ 4,387

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.

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

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 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 (loss) income consists of the following:

	Year Ended September 30, 2023		
	General	Endowment	Total
Dividends and interest	$ 4,184	$ 20,306	$ 24,490
Realized losses	-	(6,479)	(6,479)
Unrealized gains	-	85,651	85,651
Investment management fees	-	(7,951)	(7,951)
	$ 4,184	$ 91,527	$ 95,711

	Year Ended September 30, 2022		
	General	Endowment	Total
Dividends and interest	$ 6,675	$ 16,787	$ 23,462
Realized gains	-	15,575	15,575
Unrealized losses	-	(193,619)	(193,619)
Investment management fees	-	(8,920)	(8,920)
	$ 6,675	$ (170,177)	$ (163,502)

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, 2023 and 2022, 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;
(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 losses deemed to be restricted until appropriated for expenditure as follows:

	September 30, 2023	September 30, 2022
Donor-restricted endowment funds		
Original donor-restricted contributions	$ 856,752	838,584
Accumulated investment losses	(57,887)	(106,246)
	$ 798,865	$ 732,338

5. ENDOWMENT, continued

CHANGES IN ENDOWMENT NET ASSETS

	Donor-Restricted		
	Accumulated Investment Gains (Losses)	Contributions	Total
Endowment net assets			
September 30, 2021	$ 106,384	$ 821,131	$ 927,515
Investment return			
Dividends and interest	16,787	-	16,787
Realized gains	15,575	-	15,575
Unrealized losses	(193,619)	-	(193,619)
Management fees	(8,920)	-	(8,920)
	(170,177)	-	(170,177)
Endowment assets appropriated			
for expenditure	(42,453)	17,453	(25,000)
Endowment net assets,			
September 30, 2022	(106,246)	838,584	732,338
Investment return			
Dividends and interest	20,306	-	20,306
Realized losses	(6,479)	-	(6,479)
Unrealized gains	85,651	-	85,651
Management fees	(7,951)	-	(7,951)
	91,527	-	91,527
Endowment assets appropriated			
for expenditure	(43,168)	18,168	(25,000)
Endowment net assets			
September 30, 2023	$ (57,887)	$ 856,752	$ 798,865

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, 2023 and 2022, funds with original gift values of $856,752 and $838,584, respectively, had fair values of $798,865 and $732,338, respectively. Therefore, there are a deficiencies of $57,887 and $106,246 in endowment net assets with donor restrictions at September 30, 2023 and 2022, respectively, which management attributes to recent investment market declines.

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, 2023 and 2022, $43,168 and $42,453, 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, $18,168 and $17,453 of the funds appropriated from the endowment during the years ended September 30, 2023 and 2022, respectively, was restored to the original donor-restricted contributions portion of the endowment.

6. LINE OF CREDIT

KHUSA obtained a $150,000 bank line of credit in December 2020, which was renewed in December 2021 and again in December 2022. 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 8.25 percent per annum at September 30, 2023. KHUSA did not utilize these lines of credit during the years ended September 30, 2023 and 2022.

7. 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, 2023 and 2022, 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, 2023 and 2022 were $37,673 and $30,345, respectively.

8. NET ASSETS WITH DONOR RESTRICTIONS

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

	September 30, 2021	Contributions and Investment Income (Loss)	Released From Restriction	September 30, 2022
Endowment	$ 927,515	$ (170,177)	$ 25,000	$ 732,338
Program development	146,335	165,000	192,585	118,750
Time-restricted	125,000	685,000	125,000	685,000
	$ 1,198,850	$ 679,823	$ 342,585	$ 1,536,088

	September 30, 2022	Contributions and Investment Income	Released From Restriction	September 30, 2023
Endowment	$ 732,338	$ 91,527	$ 25,000	$ 798,865
Program development	118,750	555,000	115,750	558,000
Time-restricted	685,000	45,000	440,000	290,000
	$ 1,536,088	$ 691,527	$ 580,750	$ 1,646,865

9. LEASES

During the year ended September 30, 2023, KHUSA adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842), as amended*. This guidance is intended to improve financial reporting of lease transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. Key provisions in this guidance include additional disclosures surrounding the amount, timing and uncertainty of cash flows arising from leases. This change in accounting principle has been applied retrospectively, resulting in the reporting of an operating lease right-of-use asset and operating lease liability at September 30, 2022 based on future lease payments discounted by the line of credit interest rate in effect at the time of the inception of the lease agreement.

Changes to the financial statements as of and for the year ended September 30, 2022 as a result of the adoption of *Topic 842* are as follows:

- Operating right-of-use assets, net of accumulated amortization, totaling $91,694 were added to property and equipment on the statement of financial position.
- Unamortized operating lease liabilities totaling $91,694 were added to liabilities on the statement of financial position.

The adoption of *Topic 842* did not have an effect on revenue, expenses or net assets as of and for the year ended September 30, 2022.

KHUSA leased office space under an operating lease agreement effective September 2018 for a 48-month term, requiring monthly payments of $2,048. This lease was renewed September 2022 for a 48-month term, requiring monthly payments of $2,194.

9. LEASES, continued

Total lease costs are as follows:

	Years Ended June 30, 2023	Years Ended June 30, 2022
Operating lease	$ 26,328	$ 24,722

The remaining lease term and discount rate of the operating lease agreement are as follows:

	June 30, 2023	June 30, 2022
Remaining lease term - years	3.0	4.0
Discount rate percentage	6.0%	6.0%

Future minimum payments due under the terms of the operating lease at September 30, 2023 are as follows:

Year Ending September 30,	
2024	$ 26,328
2025	26,328
2026	24,134
Total lease payments	76,790
Less: interest	(6,504)
Lease liabilities	$ 70,286

10. CONCENTRATION

For the years ended September 30, 2023 and 2022, the top five donors provided approximately 47 and 52 percent of total contributions, respectively.

11. SUBSEQUENT EVENTS

Management has evaluated for potential recognition or disclosure in these financial statements subsequent events and transactions occurring through January 10, 2024, the date these financial statements were available to be issued.