



**KIDS HOPE USA**

**FINANCIAL STATEMENTS**

**With Independent Auditors' Report**

**September 30, 2020 and 2019**

**KIDS HOPE USA**

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# 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, 2020 and 2019, 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

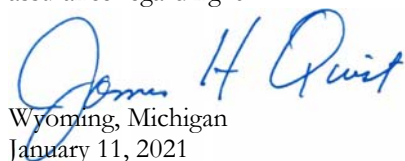
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kids Hope USA as of September 30, 2020 and 2019 and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### EMPHASIS OF MATTER

As discussed in Note 12 to the financial statements, the financial statements as of and for the year ended September 30, 2019 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### 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  
January 11, 2021

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# KIDS HOPE USA

## MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year 2020

Karen Pearson, Ph.D., President

Without a doubt, this has been a very unusual year for Kids Hope USA programs, schools and mentoring. Despite the challenges with the COVID-19 pandemic that closed most school buildings during the spring and many closures and visitor restrictions continuing in the fall, many programs are finding creative ways to connect students and mentors for meaningful connections.

Even before the pandemic hit in March 2020, KHUSA leaders were in the process of making some significant changes to important aspects of our programs and our resources. These changes are briefly summarized here.

- In early 2018 after several years of intense development, Kids Hope USA rolled out an extensive new set of resources for mentors with an accompanying change in the financial arrangement between church partners and KHUSA. Existing church partners were offered a choice to embrace the new financial model and therefore have access to the new mentoring resources or stay with their existing financial relationship with Kids Hope USA. Unintentionally, over the next 18 months, as KHUSA staff talked with new and existing programs, it turned out that we were supporting two quite different sets of programs. A large group of existing partners were not interested in moving to the new financial “scholarship provider” model, and therefore did not have access to the Life Together mentoring resources. And a smaller but growing group of new churches that embraced the new Life Together model. By the time 2020 began, it was clear that we needed to make some changes to unite our programs again and operate under one program model. So, after significant review and consultation with our church partners, we decided, in April 2020, to change the financial arrangement with our Life Together churches. We are no longer asking them to recruit scholarship providers, but rather asking them to pay a modest annual partnership fee of \$450 to Kids Hope USA. This change makes for a much simpler financial arrangement for our new and existing churches.
- Additionally, along with this simpler financial arrangement, all program directors, mentors and prayer partners have access to the full complement of Life Together resources that were developed. And, over the summer of 2020, we redesigned our web-based portals to make these valuable resources easier to find, use and search.
- We modified our team structure to provide better support to all our programs including those just launching new partnerships. With the new team structure, our team was well-positioned to provide support and solutions to all of our programs during the changing and uncertain COVID-19 pandemic.

Once the reality of school building closures and online learning from home for the majority of students became clear in early April, we realized that our traditional model of in-person mentoring, during the school day, in the school building, was going to be impossible for the remainder of the academic year and possibly in the fall too. So, Kids Hope USA moved quickly to try a small pilot program of online mentoring. We ran a pilot with about 10 mentors at a school in Arlington, Texas in April and May, and we were encouraged by the results of students and mentors spending about 30 minutes together on the school’s Zoom platform. This pilot informed much of our work over the summer to prepare training and resources for programs to embrace online mentoring and pen-pal mentoring. These two options have been embraced by many programs during the fall semester of 2020 and into 2021.

# KIDS HOPE USA

## MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year 2020

***Volunteer Hours for Kids:*** As we do each spring, we conducted a thorough survey of our programs and 84% of them responded. The survey results confirm that mentors are connecting with more than 9,300 students each week throughout the academic year. Those mentors are part of 1200 church-school partnerships in 37 states. Weekly mentoring, along with time invested by prayer partners, directors and other Kids Hope volunteers, added up to more than 782,000 hours of volunteer time serving children by almost 20,000 adults. These numbers would normally be even higher, but we adjusted some of the hours due to the pandemic-related school building closures that made it challenging, or impossible for mentors to meet with children toward the end of the academic year. Even so, this is an incredible investment of time in the lives of thousands of children by our amazing volunteers.

***Income, Expense Management and Payroll Protection Program:*** Contributions and other sources of revenue totaled just under \$1.2 million in 2020. As expected, the funds received from pledges made in previous years declined. We received a roughly two percent cash draw from our Endowment in September 2020. The remaining three percent that we were eligible to use, was left in the endowment to be treated as the first 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 who made it possible.

In 2019, the careful work of an expense management team helped trim expenses significantly throughout FY2019. At the end of FY2019, monthly expenses were down to around \$145k per month. Over the course of FY2020, and especially as the reality of the pandemic's severity became clear, we trimmed monthly expenses further to around \$115k per month. We found significant savings in areas including travel, information technology and a change in our accounting services. We also reorganized job responsibilities in such a way that we were able to function with a slightly smaller staff. Each of these savings, and others, contributed to an expense reduction of more than \$500k from FY2019.

Kids Hope USA received a Payroll Protection Program loan (CARES ACT) through our bank in April 2020 to help cover the payroll expenses for our staff during the COVID-19 pandemic. We were very grateful for the funding support. As of early January 2021, the loan has been fully forgiven.

***Overall Financial and Program Health:*** Kids Hope USA is in a stable financial position. The \$1.07 million in total assets, despite a decline from FY2019, remains strong. Liquidity remains high; cash, receivables due within one year and investments total \$1.18 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. Even in the midst of a global pandemic, many of our mentors are creatively staying connected to their students. 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,	
	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 173,417	\$ 89,102
Accounts receivable, net of allowance of \$1,091	11,434	11,849
Prepaid expenses	5,837	6,665
Investment	-	235
Contributions receivable	251,372	339,750
Trademark and website domains	20,000	20,000
Investments held for long-term purposes	810,051	784,016
	1,272,111	1,251,617
Furniture, equipment and amortizable assets		
Furniture and fixtures	12,924	16,787
Office equipment	-	2,675
Computer and technology systems	519,434	537,203
Accumulated depreciation and amortization	(423,094)	(313,928)
	109,264	242,737
Total Assets	\$ 1,381,375	\$ 1,494,354
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 6,397	\$ 22,911
Accrued payroll and related liabilities	53,100	53,977
Loan payable	247,100	-
Total Liabilities	306,597	76,888
<b>Net Assets</b>		
Without Donor Restrictions - Note 13		
Undesignated	15,010	(81,597)
Net investment in furniture, equipment and amortizable assets	109,264	242,737
	124,274	161,140
With Donor Restrictions - Note 13		
	950,504	1,256,326
Total Net Assets	1,074,778	1,417,466
Total Liabilities and Net Assets	\$ 1,381,375	\$ 1,494,354

See independent auditors' report and accompanying notes to financial statements

# KIDS HOPE USA

## Statements of Activities

	Years Ended September 30,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
Affiliate and training fees	\$ 43,805	\$ -	\$ 43,805	\$ 85,790	\$ -	\$ 85,790
Contributions - Note 13	910,806	150,000	1,060,806	901,569	810,000	1,711,569
Sales	3,641	-	3,641	3,369	-	3,369
Gain on sale of furniture and equipment	1,000	-	1,000	1,129	-	1,129
Gifts in kind	14,250	-	14,250	-	-	-
Investment income (loss)	34	46,035	46,069	(728)	10,577	9,849
<b>Total Support and Revenue</b>	<b>973,536</b>	<b>196,035</b>	<b>1,169,571</b>	<b>991,129</b>	<b>820,577</b>	<b>1,811,706</b>
<b>RECLASSIFICATIONS</b>						
Net assets released for satisfaction of purpose restrictions - Note 13	501,857	(501,857)	-	989,072	(989,072)	-
<b>EXPENSES</b>						
Program services	1,064,912	-	1,064,912	1,480,320	-	1,480,320
Management and general - Note 13	298,490	-	298,490	361,615	-	361,615
Fund-raising	148,857	-	148,857	173,331	-	173,331
<b>Total Expenses</b>	<b>1,512,259</b>	<b>-</b>	<b>1,512,259</b>	<b>2,015,266</b>	<b>-</b>	<b>2,015,266</b>
Change in Net Assets	(36,866)	(305,822)	(342,688)	(35,065)	(168,495)	(203,560)
<b>Net Assets, Beginning of Year</b>						
As previously reported	161,140	1,256,326	1,417,466	561,705	1,059,321	1,621,026
Correction - Note 13	-	-	-	(365,500)	365,500	-
As corrected	161,140	1,256,326	1,417,466	196,205	1,424,821	1,621,026
<b>Net Assets, End of Year</b>	<b>\$ 124,274</b>	<b>\$ 950,504</b>	<b>\$ 1,074,778</b>	<b>\$ 161,140</b>	<b>\$ 1,256,326</b>	<b>\$ 1,417,466</b>

See independent auditors' report and accompanying notes to financial statements

# KIDS HOPE USA

## Statements of Functional Expenses

Years Ended September 30,

	2020				2019			
	Program Services	Management and General	Fund- Raising	Total	Program Services	Management and General	Fund- Raising	Total
Salaries and wages	\$ 679,714	\$ 149,748	\$ 89,851	\$ 919,313	\$ 892,674	\$ 155,808	\$ 83,400	\$ 1,131,882
Pension plan contributions	25,418	5,600	3,360	34,378	30,486	5,321	2,849	38,656
Other employee benefits	66,314	14,610	8,766	89,690	152,174	26,561	14,216	192,951
Payroll taxes	50,685	11,166	6,700	68,551	67,359	11,757	6,294	85,410
Professional services - accounting	-	42,903	-	42,903	-	61,160	-	61,160
Professional services - legal	-	899	-	899	-	-	-	-
Professional services - other	38,938	7,452	-	46,390	78,054	8,177	-	86,231
Advertising and promotion	3,664	-	1,161	4,825	7,171	-	2,387	9,558
Office expenses	8,068	20,497	4,326	32,891	16,767	37,447	7,569	61,783
Information technology	47,299	10,248	5,329	62,876	66,682	12,448	6,289	85,419
Occupancy - Note 13	18,031	3,864	3,864	25,759	23,554	5,047	5,047	33,648
Travel	9,392	783	5,479	15,654	41,870	3,489	24,424	69,783
Conferences, conventions and meetings	23,958	1,320	-	25,278	6,204	1,540	-	7,744
Interest	-	-	-	-	-	2,560	-	2,560
Depreciation and amortization	93,431	20,021	20,021	133,473	97,325	20,855	20,856	139,036
Insurance	-	9,379	-	9,379	-	9,445	-	9,445
<b>Total Expenses</b>	<b>\$ 1,064,912</b>	<b>\$ 298,490</b>	<b>\$ 148,857</b>	<b>\$ 1,512,259</b>	<b>\$ 1,480,320</b>	<b>\$ 361,615</b>	<b>\$ 173,331</b>	<b>\$ 2,015,266</b>

See independent auditors' report and accompanying notes to financial statements

# KIDS HOPE USA

## Statements of Cash Flows

	Years Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (342,688)	\$ (203,560)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions of marketable securities	(2,182)	-
Gains from investments	(36,091)	(52,406)
(Decrease) increase in allowance for doubtful accounts	-	(7,384)
Depreciation and amortization	133,473	139,036
Gain on sale of furniture and equipment	(1,000)	(1,129)
Change in:		
Accounts receivable	415	77
Prepaid expenses	828	8,651
Contributions receivable	88,378	25,750
Accounts payable	(16,514)	(98,618)
Accrued payroll and related liabilities	(877)	(3,406)
Net Cash Used by Operating Activities	(176,258)	(192,989)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	762,057	954,310
Purchases of investments	(749,584)	(634,962)
Proceeds from sale of furniture and equipment	1,000	1,150
Purchases of furniture and equipment	-	(19,631)
Net Cash Provided by Investing Activities	13,473	300,867
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	247,100	-
Proceeds from line of credit	-	35,000
Payments on line of credit	-	(135,000)
Net Cash Provided (Used) by Financing Activities	247,100	(100,000)
Change in Cash and Cash Equivalents	84,315	7,878
Cash and Cash Equivalents, Beginning of Year	91,150	83,272
Cash and Cash Equivalents, End of Year	\$ 175,465	\$ 91,150
<b>SUPPLEMENTARY DATA</b>		
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, 2020 and 2019

### 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 of \$1,091 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, 2020 and 2019, past due accounts totaled \$12,525 and \$4,870, 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, 2020 and 2019

### 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, 2020 and 2019 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 consisted 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 is 2.51 percent at September 30, 2020. 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, 2020 and 2019; 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 \$133,473 and \$139,036 for the years ended September 30, 2020 and 2019, 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, 2020 and 2019

### 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 SERVICES

For the years ended September 30, 2020 and 2019, contributed services that require specialized skills are reflected in the statements of activities at their estimated fair value of \$14,250 and \$-0-, respectively.

During the years ended September 30, 2020 and 2019, 19,836 and 21,868 unpaid volunteers contributed an estimated 782,400 and 1,003,500 hours, respectively, having an estimated value of approximately \$21,281,800 and \$25,519,400, 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, 2020 and 2019

### 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,	
	2020	2019
Cash and cash equivalents	\$ 173,417	\$ 89,102
Accounts receivable	11,434	11,849
Investment return of principal	-	235
Contributions receivable due within one year	180,000	175,000
Investments held for long-term purposes	810,051	784,016
Less:		
Net assets restricted for endowment	(810,051)	(784,016)
Net assets restricted for scholarship	(255,000)	(350,000)
	<u>\$ 109,851</u>	<u>\$ (73,814)</u>

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

### 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at September 30, 2020 consist of four promises to give from four foundations. Contributions receivable at September 30, 2019 consist of four promises to give from two 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,	
	2020	2019
Amounts due in:		
Less than one year	\$ 180,000	\$ 175,000
One year to five years	75,000	175,000
	<u>255,000</u>	<u>350,000</u>
Less: discount to net present value	<u>(3,628)</u>	<u>(10,250)</u>
Estimated future cash flows from contributions receivable	<u>\$ 251,372</u>	<u>\$ 339,750</u>

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

4. INVESTMENT AND INVESTMENTS HELD FOR LONG-TERM PURPOSES

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

	September 30, 2020		
	Investments Held For Long-Term Purposes		
	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
	\$ 810,051	\$ 711,298	\$ 98,753

	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	-
Fixed income funds	-	-	-	313,927	307,069	6,858
Equity funds	-	-	-	460,282	418,446	41,836
	\$ 235	\$ 235	\$ -	\$ 784,016	\$ 735,322	\$ 48,694

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

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 consisted of a single holding of Federal Home Loan Mortgage Securities, the value of which was 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, 2020		
	Level 1	Level 2	Total
CapTrust Investments	\$ 810,051	\$ -	\$ 810,051
	<u>\$ 810,051</u>	<u>\$ -</u>	<u>\$ 810,051</u>
	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>

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

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

Investment income (loss) consists of the following:

	Year Ended September 30, 2020		
	Investments	Endowment	Total
Dividends and interest	\$ 2	\$ 17,668	\$ 17,670
Net realized (losses) gains	-	(13,968)	(13,968)
Net unrealized losses	-	50,059	50,059
Investment management fees	-	(7,724)	(7,724)
	2	46,035	46,037
Other bank interest	32	-	32
Total investment income	\$ 34	\$ 46,035	\$ 46,069

	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
Total investment income	\$ 155	\$ 9,694	\$ 9,849

### 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, 2020 and 2019, 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.

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

5. ENDOWMENT, continued

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, 2020		
	Without Donor Restriction	With Donor Restrictions	Total
	-	-	-
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor-restricted contributions	-	802,744	802,744
Accumulated investment gains	-	7,307	7,307
	\$ -	\$ 810,051	\$ 810,051
	September 30, 2019		
	Without Donor Restriction	With Donor Restrictions	Total
	-	-	-
Board-designated endowment	\$ -	\$ -	\$ -
Donor-restricted endowment			
Original donor-restricted contributions	-	775,819	775,819
Accumulated investment gains	-	8,197	8,197
	\$ -	\$ 784,016	\$ 784,016

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

5. ENDOWMENT, continued  
CHANGES IN ENDOWMENT NET ASSETS

	With Donor Restrictions			Total
	Without Donor Restriction	Accumulated Investment Gains	Original Donor- Restricted Contributions	
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
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

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

### 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, 2020 and 2019, funds with original gift values of \$575,819 and \$775,819, respectively, had fair values of \$579,169 and \$784,016 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 the years ended September 30, 2020 and 2019, \$46,925 and \$50,000, 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, \$26,925 of the funds appropriated from the endowment during the year ended September 30, 2020 was restored to the original donor-restricted contributions portion of the endowment.

### 6. LOAN PAYABLE

Loan payable consists of a Federal Paycheck Protection Program loan dated April 2020. This loan is 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.

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

### 7. LINE OF CREDIT

KHUSA has a \$250,000 bank line of credit which is secured by all assets and requires interest-only monthly payments. This agreement matured in May 2020 and was extended to November 2020. Any amounts borrowed under this agreement would bear interest at 0.25 points under the bank's prime rate, which was 3.25 percent per annum at September 30, 2020. KHUSA borrowed \$-0- and \$35,000 under this line of credit during the years ended September 30, 2020 and 2019, respectively, repaying the entire \$35,000 balance during the year ended September 30, 2019. KHUSA was in compliance with all loan covenants at September 30, 2020.

A \$150,000 line of credit was issued 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 3.25 percent per annum at the date of issuance.

### 8. 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, 2020 and 2019 were \$34,378 and \$38,656, 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 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, 2020 and 2019 was \$26,880 and \$35,572, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ending September 30,	Lease Payments
2021	\$ 24,702
2022	22,528
Total	<u>\$ 47,230</u>

# KIDS HOPE USA

## Notes to Financial Statements

**September 30, 2020 and 2019**

9. NET ASSETS WITH DONOR RESTRICTIONS

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

	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
Time-restricted - Note 12	365,500	500,000	515,500	350,000
	\$ 1,424,821	\$ 820,577	\$ 989,072	\$ 1,256,326
	September 30, 2019	Contributions and Investment Income	Released From Restriction	September 30, 2020
Endowment	\$ 784,016	\$ 46,035	\$ 20,000	\$ 810,051
Scholarship	122,310	70,000	75,975	116,335
Time-restricted	350,000	80,000	175,000	255,000
	\$ 1,256,326	\$ 196,035	\$ 270,975	\$ 1,181,386

10. CONCENTRATION

For the years ended September 30, 2020 and 2019, the top five donors provided 60 and 39 percent of total contributions, respectively.

11. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2020 and 2019, 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.

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

### 12. PRIOR YEAR CORRECTIONS

The financial statements as of and for the year ended September 30, 2019 have been retroactively restated to correct prepaid expenses at September 30, 2019 to include an office rental deposit. The financial statements as of September 30, 2019 and 2018 and for the year ended September 30, 2019 have been retroactively restated to report contributions receivable as net assets with donor restrictions – time restricted. Financial statement balances have been affected by these corrections as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets, September 30, 2018			
As previously reported	\$ 561,705	\$ 1,059,321	\$ 1,621,026
Report contributions receivable as time-restricted net assets	(365,500)	365,500	-
As corrected	196,205	1,424,821	1,621,026

Year Ended September 30, 2019:

	As Previously Reported	Correction	As Corrected
Prepaid expenses - correct to include office rent deposit	\$ 4,617	\$ 2,048	\$ 6,665

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
As previously reported	1,491,129	320,577	1,811,706
Report contributions receivable as time-restricted contributions	(500,000)	500,000	-
As corrected	991,129	820,577	1,811,706

Net assets released for satisfaction of purpose restrictions, year ended September 30, 2019			
As previously reported	473,572	(473,572)	-
Correct amount released from restriction to reflect receipt of time-restricted contributions	515,500	(515,500)	-
	989,072	(989,072)	-

# KIDS HOPE USA

## Notes to Financial Statements

September 30, 2020 and 2019

### 13. PRIOR YEAR CORRECTIONS, continued

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses			
As previously reported	2,017,314	-	2,017,314
Correct to include office rent deposit in prepaid expenses	(2,048)	-	(2,048)
	<u>2,015,266</u>	<u>-</u>	<u>2,015,266</u>
Net assets			
As previously reported	509,092	906,326	1,415,418
Fiscal year 2018 net assets correction	(365,500)	365,500	-
Net effect of fiscal year 2019 corrections	17,548	(15,500)	2,048
	<u>\$ 161,140</u>	<u>\$ 1,256,326</u>	<u>\$ 1,417,466</u>

### 14. SUBSEQUENT EVENTS

Management has evaluated for potential recognition or disclosure in these financial statements subsequent events and transactions occurring through January 11, 2021, the date these financial statements were available to be issued.

The COVID-19 pandemic has cast uncertainty over virtually everything. Because of this uncertainty, KHUSA applied for and received governmental financial assistance of \$247,100 from the federal Paycheck Protection Program in an effort to bolster cash flow as well as to continue to provide ongoing compensation to KHUSA's employees. This loan was forgiven by the Small Business Administration in January 2021. 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.