



FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
AUGUST 31, 2016 AND 2015**

HORTON'S KIDS, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

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Independent Auditor's Report

To the Board of Directors of
Horton's Kids, Inc.

We have audited the accompanying financial statements of Horton's Kids, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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 from material misstatement, whether due to fraud or error.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Horton's Kids, Inc. as of August 31, 2016 and 2015, 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.

Toal, Griffith + Ragula, LLC

January 16, 2017

HORTON'S KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015

	2016	2015
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 426,125	\$ 112,247
Investments in Mutual Funds	586,863	1,103,878
Contributions and Other Receivables	145,535	65,556
Prepaid Expenses	37,037	13,925
Total Current Assets	1,195,560	1,295,606
Property and Equipment:		
Furniture and Equipment	71,730	71,322
Vehicles	41,820	41,820
Leasehold Improvements	233,589	123,942
Less: Accumulated Depreciation	(192,534)	(133,474)
Net Property and Equipment	154,605	103,610
Total Assets	\$ 1,350,165	\$ 1,399,216
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 60,309	\$ 43,731
Total Current Liabilities	60,309	43,731
Net Assets:		
Unrestricted	1,262,735	1,188,888
Temporarily Restricted	27,121	166,597
Total Net Assets	1,289,856	1,355,485
Total Liabilities and Net Assets	\$ 1,350,165	\$ 1,399,216

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions	\$ 1,326,076	\$ 667,822	\$ 1,993,898
Investment Income:			
Net Depreciation in Fair Value of Investments	(24,590)	-	(24,590)
Interest and Dividends	53,842	-	53,842
Less: Investment Expenses	<u>(8,801)</u>	<u>-</u>	<u>(8,801)</u>
Net Investment Income (Loss)	20,451	-	20,451
Net Assets Released from Restrictions	<u>807,298</u>	<u>(807,298)</u>	<u>-</u>
Total Revenue	2,153,825	(139,476)	2,014,349
EXPENSES			
Program Services:			
Enrichment	268,875	-	268,875
Mentoring and Case Management	139,921	-	139,921
Health and Happiness	436,585	-	436,585
Tutoring	591,622	-	591,622
Education Support and Advocacy	23,713	-	23,713
Summer Camp	<u>21,182</u>	<u>-</u>	<u>21,182</u>
Total Program Services	1,481,898	-	1,481,898
Supporting Services:			
Management and General	146,382	-	146,382
Fundraising:			
Special Events	243,107	-	243,107
Other Fundraising	<u>208,591</u>	<u>-</u>	<u>208,591</u>
Total Fundraising	<u>451,698</u>	<u>-</u>	<u>451,698</u>
Total Supporting Services	<u>598,080</u>	<u>-</u>	<u>598,080</u>
Total Expenses	<u>2,079,978</u>	<u>-</u>	<u>2,079,978</u>
Change in Net Assets	73,847	(139,476)	(65,629)
Net Assets at Beginning of Year	<u>1,188,888</u>	<u>166,597</u>	<u>1,355,485</u>
Net Assets at End of Year	<u>\$ 1,262,735</u>	<u>\$ 27,121</u>	<u>\$ 1,289,856</u>

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions	\$ 1,152,094	\$ 465,766	\$ 1,617,860
Investment Income:			
Net Depreciation in Fair Value of Investments	(36,821)	-	(36,821)
Interest and Dividends	5,714	-	5,714
Less: Investment Expenses	<u>(6,668)</u>	<u>-</u>	<u>(6,668)</u>
Net Investment Income (Loss)	(37,775)	-	(37,775)
Net Assets Released from Restrictions	<u>521,255</u>	<u>(521,255)</u>	<u>-</u>
Total Revenue	1,635,574	(55,489)	1,580,085
EXPENSES			
Program Services:			
Field Trips	8,119	-	8,119
Enrichment	174,409	-	174,409
Mentoring and Case Management	90,623	-	90,623
Health and Happiness	351,495	-	351,495
Tutoring	525,472	-	525,472
Education Support and Advocacy	62,015	-	62,015
Summer Camp	<u>13,734</u>	<u>-</u>	<u>13,734</u>
Total Program Services	1,225,867	-	1,225,867
Supporting Services:			
Management and General	110,341	-	110,341
Fundraising:			
Special Events	174,519	-	174,519
Other Fundraising	<u>182,161</u>	<u>-</u>	<u>182,161</u>
Total Fundraising	<u>356,680</u>	<u>-</u>	<u>356,680</u>
Total Supporting Services	<u>467,021</u>	<u>-</u>	<u>467,021</u>
Total Expenses	<u>1,692,888</u>	<u>-</u>	<u>1,692,888</u>
Change in Net Assets	(57,314)	(55,489)	(112,803)
Net Assets at Beginning of Year	<u>1,246,202</u>	<u>222,086</u>	<u>1,468,288</u>
Net Assets at End of Year	<u>\$ 1,188,888</u>	<u>\$ 166,597</u>	<u>\$ 1,355,485</u>

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Enrichment</u>	<u>Mentoring and Case Management</u>	<u>Health and Happiness</u>	<u>Tutoring</u>	<u>Education Support and Advocacy</u>	<u>Summer Camp</u>	<u>Total Program Services</u>
Advertising and Promotion	\$ 194	\$ 62	\$ 113	\$ 634	\$ 7	\$ 1	\$ 1,011
Bank Charges	-	-	-	-	-	-	-
Books, Subscriptions, Materials	-	-	-	8,372	-	-	8,372
Computer Services	13,484	8,267	16,107	29,028	703	761	68,350
Depreciation	154	95	56,046	318	9	9	56,631
Employee Benefits	13,010	8,060	14,909	26,076	717	836	63,608
Event Supplies and Entertainment	10,039	438	13,258	23,099	24	27	46,885
Equipment Rental and Maintenance	357	305	1,609	668	23	18	2,980
Fees	5,366	-	9,906	6,597	-	200	22,069
Food and Meals	6,322	445	9,013	3,038	53	1,164	20,035
Insurance	3,837	2,395	4,411	7,773	209	232	18,857
Internet	486	303	1,484	1,055	25	46	3,399
Occupancy Expense	13,788	8,606	22,401	27,780	6,730	821	80,126
Office Supplies	1,223	758	1,941	2,530	54	24	6,530
Other Specific Assistance	268	-	29,192	2,784	5,029	(65)	37,208
Payroll Taxes	12,165	7,472	13,974	24,562	619	812	59,604
Postage, Shipping, Delivery	44	30	52	206	2	3	337
Presents	6,151	140	317	5,211	-	-	11,819
Printing and Copying	644	311	975	2,203	29	41	4,203
Professional Fees	19,067	7,932	48,380	38,555	806	679	115,419
Program Activity Supplies	1,765	119	9,492	7,305	31	2,523	21,235
Salaries and Wages	149,702	91,723	172,850	301,452	7,462	10,365	733,554
Staff Development	269	82	1,419	2,619	354	46	4,789
Telephone and Telecommunications	1,333	665	2,532	3,610	43	81	8,264
Transportation, Travel and Parking	7,754	1,208	4,708	58,155	777	2,526	75,128
Volunteer Expense/Development	1,453	505	1,496	7,992	7	32	11,485
Total	\$ 268,875	\$ 139,921	\$ 436,585	\$ 591,622	\$ 23,713	\$ 21,182	\$ 1,481,898

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2016

	Total Program Services	Management and General	Fundraising		Total Fundraising	Total Expenses
			Special Events	Other Fundraising		
Advertising and Promotion	\$ 1,011	\$ 29	\$ 50	\$ 529	\$ 579	\$ 1,619
Bank Charges	-	162	-	4,152	4,152	4,314
Books, Subscriptions, Materials	8,372	-	-	47	47	8,419
Computer Services	68,350	4,529	3,167	12,659	15,826	88,705
Depreciation	56,631	653	72	1,704	1,776	59,060
Employee Benefits	63,608	4,812	5,949	9,927	15,876	84,296
Event Supplies and Entertainment	46,885	213	82,480	12,669	95,149	142,247
Equipment Rental and Maintenance	2,980	313	434	208	642	3,935
Fees	22,069	-	6	-	6	22,075
Food and Meals	20,035	52	321	95	416	20,503
Insurance	18,857	1,427	1,821	2,898	4,719	25,003
Internet	3,399	189	278	361	639	4,227
Occupancy Expense	80,126	5,071	6,300	11,354	17,654	102,851
Office Supplies	6,530	976	708	1,383	2,091	9,597
Other Specific Assistance	37,208	326	10,942	-	10,942	48,476
Payroll Taxes	59,604	4,493	5,646	9,275	14,921	79,018
Postage, Shipping, Delivery	337	137	15	65	80	554
Presents	11,819	16	-	-	-	11,835
Printing and Copying	4,203	253	1,013	519	1,532	5,988
Professional Fees	115,419	63,039	52,430	23,805	76,235	254,693
Program Activity Supplies	21,235	82	213	107	320	21,637
Salaries and Wages	733,554	55,609	69,892	114,234	184,126	973,289
Staff Development	4,789	873	102	431	533	6,195
Telephone and Telecommunications	8,264	406	335	1,007	1,342	10,012
Transportation, Travel and Parking	75,128	2,643	806	1,045	1,851	79,622
Volunteer Expense/Development	11,485	79	127	117	244	11,808
Total	\$ 1,481,898	\$ 146,382	\$ 243,107	\$ 208,591	\$ 451,698	\$ 2,079,978

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2015

	Field Trips	Enrichment	Mentoring and Case Management	Health and Happiness	Tutoring	Education Support and Advocacy	Summer Camp	Total Program Services
Advertising and Promotion	\$ 1	\$ 53	\$ 20	\$ 313	\$ 1,627	\$ 5	\$ 82	\$ 2,101
Bank Charges	-	38	16	41	79	9	-	183
Bad Debt	-	-	-	-	-	-	-	-
Books, Subscriptions, Materials	1	422	5	18	2,990	1,007	477	4,920
Computer Services	122	5,953	3,578	12,367	13,741	919	269	36,949
Depreciation	3	78	53	38,443	112	13	10	38,712
Employee Benefits	190	9,217	5,264	13,322	22,551	1,509	569	52,622
Event Supplies and Entertainment	71	1,710	1,054	2,597	44,761	401	125	50,719
Fees	1,215	2,570	-	9,042	1,035	210	485	14,557
Food and Meals	153	4,163	643	7,682	4,947	97	177	17,862
Insurance	62	3,020	1,701	4,394	7,585	530	164	17,456
Internet	7	281	184	1,498	759	55	5	2,789
Occupancy Expense	242	11,958	6,788	23,169	29,997	8,137	636	80,927
Office Supplies	17	926	508	1,468	3,376	144	49	6,488
Other Specific Assistance	337	2,089	531	47,329	2,171	5,635	81	58,173
Payroll Taxes	188	8,658	5,006	11,886	20,802	1,364	392	48,296
Postage, Shipping, Delivery	-	-	-	14	43	-	-	57
Presents	-	40	-	3,081	8,886	-	-	12,007
Printing and Copying	2	145	86	264	1,630	16	18	2,161
Professional Fees	170	7,234	3,670	14,683	17,739	1,195	607	45,298
Program Activity Supplies	285	1,572	-	4,700	10,962	21,362	15	38,896
Salaries and Wages	2,342	106,575	61,059	145,606	254,498	16,628	5,266	591,974
Staff Development	1	617	24	976	4,833	281	2	6,734
Telephone and Telecommunications	16	856	390	2,444	3,817	387	47	7,957
Transportation, Travel and Parking	2,693	6,197	28	5,996	56,335	2,108	4,256	77,613
Volunteer Expense/Development	1	37	15	162	10,196	3	2	10,416
Total	\$ 8,119	\$ 174,409	\$ 90,623	\$ 351,495	\$ 525,472	\$ 62,015	\$ 13,734	\$ 1,225,867

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2015

	Total Program Services	Management and General	Fundraising			Total Expenses
			Special Events	Other Fundraising	Total Fundraising	
Advertising and Promotion	\$ 2,101	\$ 35	\$ 5	\$ 370	\$ 375	\$ 2,511
Bank Charges	183	296	28	3,252	3,280	3,759
Bad Debt	-	-	6,500	-	6,500	6,500
Books, Subscriptions, Materials	4,920	4	13	7	20	4,944
Computer Services	36,949	1,986	1,912	10,005	11,917	50,852
Depreciation	38,712	1,096	20	1,396	1,416	41,224
Employee Benefits	52,622	3,024	3,733	7,901	11,634	67,280
Event Supplies and Entertainment	50,719	564	76,374	19,632	96,006	147,289
Fees	14,557	-	-	-	-	14,557
Food and Meals	17,862	6	1	21	22	17,890
Insurance	17,456	995	1,338	2,522	3,860	22,311
Internet	2,789	98	101	227	328	3,215
Occupancy Expense	80,927	4,078	5,021	9,995	15,016	100,021
Office Supplies	6,488	386	998	2,142	3,140	10,014
Other Specific Assistance	58,173	200	1,233	872	2,105	60,478
Payroll Taxes	48,296	2,856	3,596	7,053	10,649	61,801
Postage, Shipping, Delivery	57	209	853	314	1,167	1,433
Presents	12,007	-	-	-	-	12,007
Printing and Copying	2,161	72	3,241	1,338	4,579	6,812
Professional Fees	45,298	57,580	22,858	5,206	28,064	130,942
Program Activity Supplies	38,896	15	-	-	-	38,911
Salaries and Wages	591,974	35,006	44,566	86,961	131,527	758,507
Staff Development	6,734	1,366	1,334	22,073	23,407	31,507
Telephone and Telecommunications	7,957	200	531	444	975	9,132
Transportation, Travel and Parking	77,613	260	222	403	625	78,498
Volunteer Expense/Development	10,416	9	41	27	68	10,493
Total	\$ 1,225,867	\$ 110,341	\$ 174,519	\$ 182,161	\$ 356,680	\$ 1,692,888

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (65,629)	\$ (112,803)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	59,060	41,224
Depreciation in Fair Value of Investments	24,590	38,082
Increase in Contributions and Other Receivables	(79,979)	(22,758)
(Increase) Decrease in Prepaid Expenses	(23,112)	10,489
Increase (Decrease) in Accounts Payable and Accrued Expenses	<u>16,578</u>	<u>(5,785)</u>
Net Cash Used by Operating Activities	(68,492)	(51,551)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(614,711)	(1,185,195)
Proceeds from Sale of Investments	1,107,136	43,235
Purchase of Fixed Assets	<u>(110,055)</u>	<u>(35,636)</u>
Net Cash Provided (Used) by Investing Activities	382,370	(1,177,596)
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Increase (Decrease) in Cash and Cash Equivalents	313,878	(1,229,147)
Cash and Cash Equivalents at Beginning of Year	<u>112,247</u>	<u>1,341,394</u>
Cash and Cash Equivalents at End of Year	<u>\$ 426,125</u>	<u>\$ 112,247</u>
SUPPLEMENTAL DISCLOSURE		
Interest Paid	\$ <u>-</u>	\$ <u>-</u>
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>

See auditor's report and accompanying notes to financial statements.

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Horton's Kids' (HKI) mission is to empower at-risk children and prepare them for successful and healthy lives through educational opportunities and comprehensive programs tailored to their needs. Horton's Kids believes circumstance should not dictate a child's future, and that each participant should graduate from high school ready to succeed in college, career, and life.

Horton's Kids' model includes three areas of focus:

Academics

Academic Supports serve children of all ages to ensure they graduate from high school prepared for post-secondary success. Aligned to the Common Core, academic programming includes one-on-one tutoring and homework help for K-12 graders to strengthen their literacy skills; older youth programming for 7-12 graders to prepare them for post-secondary options and improve academic performance; and educational advocacy services to connect Wellington Park families with high-performing schools and support children with special needs.

Youth Development

Youth Development activities help children develop social-emotional skills that are critical to lifelong success. Activities encourage the development of key character strengths—including perseverance, optimism, and self control—and include field trips, team sports, mentoring, life skills lessons, discussion groups, and enrichment activities.

Health & Basic Needs

Health and Basic Needs Supports ensure that children are healthy and prepared to learn. Horton's Kids provides a wide range of supports, including healthy meals, mental health services, diaper and toiletry distribution, coat and backpack distributions, and connections to partner organizations that empower families.

Horton's Kids' services are made possible by hundreds of dedicated volunteers and generous monetary and in-kind donations from individuals, foundations, and corporations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit (including interest bearing deposits) with domestic financial institutions as well as money market funds.

Investments

Investments are stated at aggregate fair value. Publicly traded securities and mutual funds are valued at the last reported sales price on the last business day of the year. The difference between the total fair value at the beginning and end of the year, including investments bought and sold during the year, is included in the statements of activities and changes in net assets as net appreciation (depreciation) in fair value of investments. All purchases and sales of investments are recorded on a trade-date basis. Any unsettled transactions are recorded either as a receivable or a liability on the statements of financial position.

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. For certain long term debt, the fair value was based on present value techniques using inputs derived principally or corroborated from market data. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Pledges and Grants Receivable

Pledges and grants receivable consist of unconditional promises to give and contracts with government agencies as of August 31, 2016 and 2015. All pledges and grants are expected to be collected in the subsequent year.

Provision for Doubtful Accounts

The provision for doubtful accounts is based on management's estimate of the status of existing grants and pledges receivable. At August 31, 2016 and 2015, management has recorded a provision for doubtful accounts of \$0 and \$5,500, respectively.

Property and Equipment

HKI capitalizes all property and equipment acquisitions of \$1,000 and above. Property and equipment is recorded at cost, if purchased, or fair market value at date of donation, if contributed. Depreciation is provided on a straight line basis over the estimated useful life of the asset, usually 5-7 years.

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

HKI classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. Unconditional promises to give are recorded as receivables and revenues and HKI distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows.

- Permanently Restricted - the portion of the net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of HKI pursuant to those stipulations.
- Temporarily Restricted - the portion of the net assets resulting from contributions or other inflows of assets whose use by HKI is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of HKI pursuant to those stipulations.
- Unrestricted - the portion of the net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

When contributions are received and the restrictions met within the same fiscal year, the amounts are reported as unrestricted contributions.

Donated Services, Materials and Facilities

Donated services are recognized as contributions at their estimated fair value at the date of donation, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by HKI. In addition, individuals and other groups contribute substantial amounts of materials and services toward the fulfillment of programs initiated by HKI. A substantial number of volunteers have donated significant amounts of time to HKI's program services and to its fundraising campaigns. However, these amounts have not been recognized in the accompanying statements of activities and changes in net assets for these contributed services because the conditions for requiring recognition of such volunteer effort under generally accepted accounting principles do not exist.

Donations of materials are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, HKI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. HKI reclassifies temporarily restricted net assets to unrestricted net assets at that time.

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

HKI is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, HKI has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

HKI's informational return filings are subject to audit by the Internal Revenue Service, generally for three years after filing.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

HKI evaluated subsequent events through the date that the financial statements were available to be issued. HKI is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to January 16, 2017 that would have a material impact on the financial statements.

NOTE 2 - CONCENTRATIONS

HKI maintains cash balances in a number of financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At August 31, 2016, HKI had uninsured cash balances of approximately \$139,000. HKI considers the risk of loss to be minimal.

NOTE 3 - INVESTMENTS

The following table presents the Organization's fair value hierarchy for the above assets measured at fair value on a recurring basis as of August 31, 2016:

<u>2016</u>	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
Exchange Traded and Closed End Funds	\$ 146,392	\$ ---	\$ ---	\$ 146,392
Mutual Funds	<u>440,471</u>	---	---	<u>440,471</u>
Total Investments	\$ <u>586,863</u>	\$ ---	\$ ---	\$ <u>586,863</u>

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 3 - INVESTMENTS (CONTINUED)

The following table presents the Organization's fair value hierarchy for the above assets measured at fair value on a recurring basis as of August 31, 2015:

<u>2015</u>	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
Mutual Funds	\$ <u>1,103,878</u>	\$ ---	\$ ---	\$ <u>1,103,878</u>
Total Investments	\$ <u>1,103,878</u>	\$ ---	\$ ---	\$ <u>1,103,878</u>

NOTE 4 - LEASE

In March 2012, HKI entered into a lease for a residential apartment used for various program functions. This lease is for a period of five years and expires February 28, 2017.

In December 2014, HKI entered into a lease for office space for a period of five years, expiring January 31, 2019. The terms of this lease require monthly payments of \$6,538 and 4% annual increases effective February 1 of each year.

Future minimum annual payments under these leases are as follows:

2017	\$ 92,834
2018	90,307
2019	<u>38,241</u>
Total Minimum Lease Payments	\$ <u>221,832</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

<u>Purpose</u>	<u>2016</u>	<u>2015</u>
Purpose Restricted - Older Youth	\$ 4,500	\$ 10,000
Purpose Restricted - Academic Programs	5,247	107,220
Purpose Restricted - Career Assistance	4,848	5,298
Purpose Restricted - Scholarships	10,026	10,026
Purpose Restricted - Organizational Development	2,500	24,053
Time-Restricted - General Operating	<u>---</u>	<u>10,000</u>
Total	\$ <u>27,121</u>	\$ <u>166,597</u>

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 6 - DONATED SERVICES AND FACILITIES

The value of donated services and facilities included as contributions in the financial statements and the corresponding expenses for the years ended August 31, 2016 and 2015 are as follows:

	<u>2016</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Professional Fees	\$ <u>176</u>	\$ <u>15,753</u>	\$ <u>77,217</u>	\$ <u>93,146</u>
Total	\$ <u><u>176</u></u>	\$ <u><u>15,753</u></u>	\$ <u><u>77,217</u></u>	\$ <u><u>93,146</u></u>

	<u>2015</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Legal	\$ ---	\$ 415	\$ ---	\$ 415
Professional Fees	<u>---</u>	<u>18,528</u>	<u>20,000</u>	<u>38,528</u>
Total	\$ <u><u>---</u></u>	\$ <u><u>18,943</u></u>	\$ <u><u>20,000</u></u>	\$ <u><u>38,943</u></u>

NOTE 7 - RETIREMENT PLAN

In 2003, HKI established a SIMPLE IRA plan covering all employees who are reasonably expected to receive \$5,000 in compensation for the calendar year. HKI matches employee contributions dollar-for-dollar up to the lesser of 3% of the employee's compensation or the Internal Revenue Service limit. Pension expense for the years ended August 31, 2016 and 2015 was approximately \$3,400 and \$3,200, respectively.