



FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
AUGUST 31, 2019 AND 2018**

HORTON'S KIDS, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Alta CPA Group, LLC

November 27, 2019

HORTON'S KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and Cash Equivalents	\$ 332,273	\$ 314,759
Investments	666,902	637,553
Contributions and Other Receivables	160,730	159,655
Prepaid Expenses	<u>55,565</u>	<u>88,631</u>
 Total Current Assets	 1,215,470	 1,200,598
Property and Equipment:		
Land	338,766	265,788
Furniture and Equipment	120,992	133,394
Vehicles	70,941	70,941
Leasehold Improvements	340,041	236,762
Less: Accumulated Depreciation	<u>(310,280)</u>	<u>(295,807)</u>
 Net Property and Equipment	 <u>560,460</u>	 <u>411,078</u>
 Total Assets	 <u>\$ 1,775,930</u>	 <u>\$ 1,611,676</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 75,162	\$ 45,608
Deferred Revenue	<u>64,197</u>	<u>8,750</u>
 Total Current Liabilities	 139,359	 54,358
Net Assets:		
Without Donor Restrictions	1,597,749	1,489,942
With Donor Restrictions	<u>38,822</u>	<u>67,376</u>
 Total Net Assets	 <u>1,636,571</u>	 <u>1,557,318</u>
 Total Liabilities and Net Assets	 <u>\$ 1,775,930</u>	 <u>\$ 1,611,676</u>

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

HORTON'S KIDS, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Contributions	\$ 2,468,033	\$ 765,625	\$ 3,233,658
Investment Income:			
Net Depreciation in Fair Value of Investments	(11,505)	-	(11,505)
Investment Income	34,063	-	34,063
Less: Investment Expenses	-	-	-
Net Investment Income	<u>22,558</u>	<u>-</u>	<u>22,558</u>
Net Assets Released from Restrictions	<u>794,179</u>	<u>- (794,179)</u>	<u>-</u>
Total Revenue	3,284,770	(28,554)	3,256,216
EXPENSES			
Program Services:			
Academics	724,901	-	724,901
Communication and Marketing	424,929	-	424,929
Health and Basic Needs	704,285	-	704,285
Summer Camp	202,499	-	202,499
Youth Development	<u>355,594</u>	<u>-</u>	<u>355,594</u>
Total Program Services	2,412,208	-	2,412,208
Supporting Services:			
Management and General	316,293	-	316,293
Fundraising:			
Special Events	228,371	-	228,371
Other Fundraising	220,091	-	220,091
Total Fundraising	<u>448,462</u>	<u>-</u>	<u>448,462</u>
Total Supporting Services	<u>764,755</u>	<u>-</u>	<u>764,755</u>
Total Expenses	<u>3,176,963</u>	<u>-</u>	<u>3,176,963</u>
Change in Net Assets	107,807	(28,554)	79,253
Net Assets at Beginning of Year	<u>1,489,942</u>	<u>67,376</u>	<u>1,557,318</u>
Net Assets at End of Year	<u>\$ 1,597,749</u>	<u>\$ 38,822</u>	<u>\$ 1,636,571</u>

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

HORTON'S KIDS, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	\$ 1,826,479	\$ 758,135	\$ 2,584,614
Investment Income:			
Net Appreciation in Fair Value of Investments	38,803	-	38,803
Investment Income	25,747	-	25,747
Less: Investment Expenses	(18,648)	-	(18,648)
Net Investment Income	45,902	-	45,902
Net Assets Released from Restrictions	740,350	(740,350)	-
 Total Revenue	 2,612,731	 17,785	 2,630,516
EXPENSES			
Program Services:			
Academics	538,416	-	538,416
Communication and Marketing	283,766	-	283,766
Health and Basic Needs	691,905	-	691,905
Summer Camp	87,551	-	87,551
Youth Development	322,798	-	322,798
 Total Program Services	 1,924,436	 -	 1,924,436
Supporting Services:			
Management and General	160,999	-	160,999
Fundraising:			
Special Events	214,562	-	214,562
Other Fundraising	208,705	-	208,705
Total Fundraising	423,267	-	423,267
 Total Supporting Services	 584,266	 -	 584,266
 Total Expenses	 2,508,702	 -	 2,508,702
 Change in Net Assets	 104,029	 17,785	 121,814
Net Assets at Beginning of Year	1,385,913	49,591	1,435,504
Net Assets at End of Year	\$ 1,489,942	\$ 67,376	\$ 1,557,318

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

HORTON'S KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Academics</u>	<u>Communication and Marketing</u>	<u>Health and Basic Needs</u>	<u>Summer Camp</u>	<u>Youth Development</u>	<u>Total Program Services</u>
Advertising and Promotion	\$ -	\$ 120,052	\$ -	\$ -	\$ -	\$ 120,052
Bank Charges	-	-	-	-	-	-
Books, Subscriptions, Materials	17,035	-	-	-	470	17,505
Computer Services	6,702	1,679	4,649	1,094	3,177	17,301
Depreciation	8,208	2,214	42,540	1,603	5,079	59,644
Employee Benefits	39,677	9,878	28,669	7,980	19,674	105,878
Event Supplies and Entertainment	-	50,604	-	-	-	50,604
Equipment Rental and Maintenance	2,704	715	3,232	181	1,293	8,125
Fees	-	-	360	4,561	5,722	10,643
Food and Meals	204	13	5,452	649	2,724	9,042
Insurance	7,456	1,880	5,385	979	3,618	19,318
Internet	958	231	885	139	828	3,041
Occupancy Expense	39,163	9,379	27,890	5,799	19,636	101,867
Office Supplies	8,003	7,864	6,088	1,218	6,769	29,942
Other Specific Assistance	15,394	-	1,957	31,401	75	48,827
Payroll Taxes	32,477	8,094	22,924	4,322	15,996	83,813
Postage, Shipping, Delivery	156	3,295	188	6	75	3,720
Presents	683	-	253	149	15,217	16,302
Printing and Copying	2,539	662	1,807	340	1,107	6,455
Professional Fees	35,865	27,909	17,121	8,271	17,482	106,648
Program Activity Supplies	19,988	79,706	204,536	63,296	23,165	390,691
Salaries and Wages	405,574	94,736	306,644	55,647	188,674	1,051,275
Staff Development	7,742	1,792	6,161	2,306	4,322	22,323
Telephone and Telecommunications	5,936	1,179	4,559	895	3,674	16,243
Transportation, Travel and Parking	55,481	1,159	5,710	4,823	8,005	75,178
Volunteer Expense/Development	12,956	1,888	7,275	6,840	8,812	37,771
Total	\$ <u>724,901</u>	\$ <u>424,929</u>	\$ <u>704,285</u>	\$ <u>202,499</u>	\$ <u>355,594</u>	\$ <u>2,412,208</u>

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, 2019

	Total Program Services	Management and General	Fundraising			Total Expenses
			Special Events	Other Fundraising	Total Fundraising	
Advertising and Promotion	\$ 120,052	\$ 290	\$ -	\$ -	\$ -	\$ 120,342
Bank Charges	-	8,048	-	9,321	9,321	17,369
Books, Subscriptions, Materials	17,505	-	-	-	-	17,505
Computer Services	17,301	1,325	905	2,170	3,075	21,701
Depreciation	59,644	1,836	1,167	4,387	5,554	67,034
Employee Benefits	105,878	8,453	6,329	13,412	19,741	134,072
Event Supplies and Entertainment	50,604	-	91,128	-	91,128	141,732
Equipment Rental and Maintenance	8,125	494	248	840	1,088	9,707
Fees	10,643	-	-	-	-	10,643
Food and Meals	9,042	67	3	8	11	9,120
Insurance	19,318	1,374	1,023	2,553	3,576	24,268
Internet	3,041	177	140	321	461	3,679
Occupancy Expense	101,867	6,868	5,332	12,230	17,562	126,297
Office Supplies	29,942	2,158	-	19,909	19,909	52,009
Other Specific Assistance	48,827	-	-	-	-	48,827
Payroll Taxes	83,813	5,967	4,535	10,701	15,236	105,016
Postage, Shipping, Delivery	3,720	106	20	59	79	3,905
Presents	16,302	-	-	-	-	16,302
Printing and Copying	6,455	484	340	3,961	4,301	11,240
Professional Fees	106,648	203,794	14,452	6,691	21,143	331,585
Program Activity Supplies	390,691	406	41,766	72	41,838	432,935
Salaries and Wages	1,051,275	71,132	56,011	126,391	182,402	1,304,809
Staff Development	22,323	1,318	1,036	3,854	4,890	28,531
Telephone and Telecommunications	16,243	535	389	1,447	1,836	18,614
Transportation, Travel and Parking	75,178	503	515	635	1,150	76,831
Volunteer Expense/Development	37,771	958	3,032	1,129	4,161	42,890
Total	\$ 2,412,208	\$ 316,293	\$ 228,371	\$ 220,091	\$ 448,462	\$ 3,176,963

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

HORTON'S KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Academics</u>	<u>Communication and Marketing</u>	<u>Health and Basic Needs</u>	<u>Summer Camp</u>	<u>Youth Development</u>	<u>Total Program Services</u>
Advertising and Promotion	\$ -	\$ 120,000	\$ -	\$ -	\$ -	\$ 120,000
Bank Charges	-	-	-	-	-	-
Books, Subscriptions, Materials	11,087	-	-	72	663	11,822
Computer Services	9,441	2,552	14,181	4,759	7,355	38,288
Depreciation	2,096	224	43,476	173	786	46,755
Employee Benefits	24,605	5,283	27,202	4,442	18,850	80,382
Event Supplies and Entertainment	362	43,072	815	476	310	45,035
Equipment Rental and Maintenance	1,915	440	7,646	163	1,294	11,458
Fees	493	-	4,780	7,371	4,646	17,290
Food and Meals	400	23	4,695	392	1,767	7,277
Insurance	5,208	1,123	5,604	881	3,842	16,658
Internet	755	159	967	125	557	2,563
Occupancy Expense	28,932	5,268	31,933	4,187	18,175	88,495
Office Supplies	7,234	9,905	8,267	1,140	5,195	31,741
Other Specific Assistance	11,404	9	1,208	-	61	12,682
Payroll Taxes	21,085	4,480	22,302	3,420	15,632	66,919
Postage, Shipping, Delivery	307	813	417	45	230	1,812
Presents	2,883	430	3,122	181	13,574	20,190
Printing and Copying	1,118	439	1,907	188	774	4,426
Professional Fees	21,586	29,218	19,481	2,419	11,570	84,274
Program Activity Supplies	31,096	692	149,371	4,182	5,219	190,560
Salaries and Wages	271,613	54,538	310,880	41,706	189,619	868,356
Staff Development	4,881	882	5,119	760	3,737	15,379
Telephone and Telecommunications	4,560	630	4,287	844	2,242	12,563
Transportation, Travel and Parking	64,102	834	8,613	3,863	9,049	86,461
Volunteer Expense/Development	11,253	2,752	15,632	5,762	7,651	43,050
Total	\$ 538,416	\$ 283,766	\$ 691,905	\$ 87,551	\$ 322,798	\$ 1,924,436

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, 2018

	Total Program Services	Management and General	Fundraising			Total Expenses
			Special Events	Other Fundraising	Total Fundraising	
Advertising and Promotion	\$ 120,000	\$ 240	\$ -	\$ 24	\$ 24	\$ 120,264
Bank Charges	-	8,279	-	7,721	7,721	16,000
Books, Subscriptions, Materials	11,822	-	-	-	-	11,822
Computer Services	38,288	2,581	2,621	5,471	8,092	48,961
Depreciation	46,755	837	240	2,015	2,255	49,847
Employee Benefits	80,382	6,428	5,361	11,181	16,542	103,352
Event Supplies and Entertainment	45,035	-	102,822	-	102,822	147,857
Equipment Rental and Maintenance	11,458	442	326	730	1,056	12,956
Fees	17,290	-	-	-	-	17,290
Food and Meals	7,277	42	-	-	-	7,319
Insurance	16,658	1,268	1,167	2,314	3,481	21,407
Internet	2,563	186	180	328	508	3,257
Occupancy Expense	88,495	5,828	5,383	10,703	16,086	110,409
Office Supplies	31,741	2,669	17,695	16,226	33,921	68,331
Other Specific Assistance	12,682	10	12	12	24	12,716
Payroll Taxes	66,919	5,109	4,642	9,320	13,962	85,990
Postage, Shipping, Delivery	1,812	147	90	142	232	2,191
Presents	20,190	543	330	1,298	1,628	22,361
Printing and Copying	4,426	221	188	407	595	5,242
Professional Fees	84,274	61,676	13,128	13,915	27,043	172,993
Program Activity Supplies	190,560	220	1,678	59	1,737	192,517
Salaries and Wages	868,356	60,559	56,489	118,852	175,341	1,104,256
Staff Development	15,379	2,176	649	4,522	5,171	22,726
Telephone and Telecommunications	12,563	530	505	1,917	2,422	15,515
Transportation, Travel and Parking	86,461	545	609	785	1,394	88,400
Volunteer Expense/Development	43,050	463	447	763	1,210	44,723
Total	\$ 1,924,436	\$ 160,999	\$ 214,562	\$ 208,705	\$ 423,267	\$ 2,508,702

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

HORTON'S KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 79,253	\$ 121,814
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	67,034	57,060
In-Kind Donation of Stock	-	(25,064)
(Appreciation) Depreciation in Fair Value of Investments	11,505	(38,803)
(Increase) Decrease in Contributions and Other Receivables	(1,075)	(49,913)
(Increase) Decrease in Prepaid Expenses	33,066	(47,224)
Increase (Decrease) in Accounts Payable and Accrued Expenses	29,554	(19,212)
Increase in Deferred Revenue	<u>55,447</u>	<u>3,250</u>
Net Cash Provided by Operating Activities	274,784	1,908
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	369,919	404,554
Proceeds from Sale of Investments	(410,436)	(210,296)
Purchase of Fixed Assets	<u>(216,753)</u>	<u>(318,854)</u>
Net Cash Used by Investing Activities	(257,270)	(124,596)
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Increase (Decrease) in Cash and Cash Equivalents	17,514	(122,688)
Cash and Cash Equivalents at Beginning of Year	<u>314,759</u>	<u>437,447</u>
Cash and Cash Equivalents at End of Year	<u>\$ 332,273</u>	<u>\$ 314,759</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, 2019 AND 2018

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 so they graduate from high school prepared for post-secondary success. Academic supports – and literacy supports in particular – are an urgent need for the children we serve. Reading on grade level by third grade is one of the most important predictors of long term success, but meeting this benchmark is a challenge for Wellington Park children. By the time they enter kindergarten, our participants have heard, on average, 30 million fewer words than their more affluent peers, putting them at a significant disadvantage. This gap only widens as children grow older: in fact, many of our participants come to us three or more years behind in reading. Aligned to the Common Core, our programming includes one-on-one tutoring and homework help for children in grades K-12 to strengthen their literacy skills; older youth programming for children in grades 7-12 – such as career exploration and SAT/ACT preparation - to prepare them for post-secondary options; and educational advocacy services to connect families with high-performing schools and support children with special needs. All of these supports result in tremendous outcomes for children: in fact, children in Horton's Kids are twice as likely to graduate from high school.

Youth Development

Youth Development activities help children develop social-emotional skills, habits, and behaviors that are critical to lifelong success. This includes everything from learning to manage their emotions to writing a resume. Additionally, key character strengths – such as perseverance, optimism, and self-control – are closely tied to life-long success. Our activities that foster these skills and habits include field trips, team and individual sports, mentoring, life skills lessons, discussion forums, and enrichment activities.

Health & Basic Needs

Health and basic needs supports ensure that children are healthy and prepared to learn. The children we serve live in a community with one of the highest rates of violent crime in DC, where the average family income is less than \$10,000 per year. Our community resource center, open six days a week, is located just steps from children's homes, allowing us to be a consistent and trusted resource for the families we serve. We provide a wide range of services, including daily after school meals, mental health supports, diaper and toiletry distribution, coat and backpack distributions, and connections to partner organizations that empower families.

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial statements reflect all significant receivables, payables and other liabilities.

Basis of Presentation

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 therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. 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 was restricted has been fulfilled, or both.

When contributions are received and the restrictions met within the same fiscal year, the amounts are reported as without donor restrictions.

Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, quantitative and qualitative information about the liquidity and availability of resources, consistency in the presentation of expenses and investment return, and other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU has been applied retrospectively to all periods presented. HKI has changed its presentation of net asset classes, expanded the footnote disclosures required by ASU 2016-14, and reclassified certain expense items to conform to the requirements of the ASU.

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.

HORTON'S KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

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.

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 in 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, 2019 and 2018. 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, 2019 and 2018, management has recorded no provision for doubtful accounts.

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, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

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 net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as donor 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.

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.

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.

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. Certain costs, such as some salary, payroll taxes, employee benefits, and occupancy are allocated based on estimates of staff time spent on each functional area.

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NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

HKI evaluated subsequent events through the date that the financial statements were available to be issued. HKI has identified no significant events that occurred subsequent to the statement of financial position date but prior to November 27, 2019 that would have a material impact on the financial statements.

NOTE 2 - CONCENTRATIONS

HKI maintains cash balances in a number of financial institutions. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents. At August 31, 2019, the Organization's cash did not exceed the federally insured limits.

NOTE 3 - INVESTMENTS

The following table presents HKI's fair value hierarchy for the above assets measured at fair value on a recurring basis as of August 31, 2019 and 2018:

<u>2019</u>	Quoted Market Prices in Active Markets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>	<u>Total</u>	
Common Stock Exchange Traded and Closed End Funds Mutual Funds	\$ 3,476 149,873 <u>513,553</u>	\$ --- --- ---	\$ --- --- ---	\$ 3,476 149,873 <u>513,553</u>	
Total Investments	\$ <u>666,902</u>	\$ <u>---</u>	\$ <u>---</u>	\$ <u>666,902</u>	
	<u>2018</u>	Quoted Market Prices in Active Markets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>	<u>Total</u>
Common Stock Exchange Traded and Closed End Funds Mutual Funds	\$ 26,151 497,117 <u>114,285</u>	\$ --- --- ---	\$ --- --- ---	\$ 26,151 497,117 <u>114,285</u>	
Total Investments	\$ <u>637,553</u>	\$ <u>---</u>	\$ <u>---</u>	\$ <u>637,553</u>	

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NOTE 4 - LEASE

In March 2012, HKI entered into a lease for a residential apartment used for various program functions. This lease was for a period of five years and expired February 28, 2018. This lease has defaulted to a month to month agreement.

In December 2018, HKI entered into a lease for office space for a period of five years, expiring January 31, 2024. The terms of this lease require monthly payments of \$8,391 and 2.3% annual increases effective January 1 of each year.

Future minimum annual payments under these leases are as follows:

2020	\$ 102,253
2021	104,811
2022	107,428
2023	110,119
2024	112,876
Other	<u>37,934</u>
 Total Minimum Lease Payments	 \$ <u>575,421</u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

At August 31, 2019, temporarily restricted net assets are available for the following purposes:

<u>Purpose</u>	<u>2019</u>	<u>2018</u>
Purpose Restricted - Older Youth	\$ 5,000	\$ 17,504
Purpose Restricted - Academic Programs	20,357	30,749
Purpose Restricted - Career Assistance	6,608	7,495
Purpose Restricted - Scholarships	6,443	7,826
Purpose Restricted - Organizational Development	<u>414</u>	<u>3,802</u>
 Total	 \$ <u>38,822</u>	 \$ <u>67,376</u>

NOTE 6 - 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, 2019 and 2018 were approximately \$17,600 and \$12,000 respectively.

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NOTE 7 - 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, 2019 and 2018 are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertisement	\$ 120,000	\$ ---	\$ ---	\$ 120,000
Professional Fees	<u>---</u>	<u>157,396</u>	<u>5,000</u>	<u>162,396</u>
Total	\$ <u>120,000</u>	\$ <u>157,396</u>	\$ <u>5,000</u>	\$ <u>282,396</u>

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertisement	\$ 120,000	\$ ---	\$ ---	\$ 120,000
Professional Fees	<u>---</u>	<u>16,308</u>	<u>---</u>	<u>16,308</u>
Total	\$ <u>120,000</u>	\$ <u>16,308</u>	\$ <u>---</u>	\$ <u>136,308</u>

NOTE 8 - LIQUIDITY AND AVAILABILITY

HKI maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 332,273	\$ 314,759
Investments	666,902	637,553
Contributions and Other Receivables	<u>160,730</u>	<u>159,655</u>
Total Current Financial Assets at Year End	1,159,905	1,111,967
Amounts Unavailable for General Expenditures Within One Year, Due to:		
Restricted by Donors for a Specific Purpose	<u>(38,822)</u>	<u>(67,376)</u>
Total Financial Assets Available for General Expenditure Within One Year	\$ <u>1,121,083</u>	\$ <u>1,044,591</u>