

FINANCIAL STATEMENTS



Horton's Kids

**FOR THE YEAR ENDED AUGUST 31, 2021
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2020**

HORTON'S KIDS, INC.

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Horton's Kids, Inc. (the Organization), which comprise the statement of financial position as of August 31, 2021, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 the Organization as of August 31, 2021, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Organization's 2020 financial statements, which were audited by other auditors and, in their report dated January 26, 2021, they expressed an unmodified opinion on those statements.

Gelman Rosenberg & Freedman

April 1, 2022

HORTON'S KIDS, INC.

STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 794,469	\$ 991,591
Investments	1,029,806	796,555
Grants and contributions receivable	330,211	112,420
Prepaid expenses	<u>110,527</u>	<u>73,962</u>
Total current assets	<u>2,265,013</u>	<u>1,974,528</u>
FIXED ASSETS		
Land	338,766	338,766
Buildings	100,000	-
Furniture and equipment	163,947	132,943
Vehicles	22,797	24,169
Leasehold improvements	<u>345,726</u>	<u>340,041</u>
	971,236	835,919
Less: Accumulated depreciation and amortization	<u>(385,087)</u>	<u>(323,409)</u>
Net fixed assets	<u>586,149</u>	<u>512,510</u>
TOTAL ASSETS	<u>\$ 2,851,162</u>	<u>\$ 2,487,038</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 90,726	\$ 62,262
Paycheck Protection Program loan	323,115	247,545
Current portion of deferred rent	<u>21,462</u>	<u>21,256</u>
Total current liabilities	435,303	331,063
NONCURRENT LIABILITIES		
Deferred rent	<u>11,712</u>	<u>29,697</u>
Total liabilities	<u>447,015</u>	<u>360,760</u>
NET ASSETS		
Without donor restrictions	1,939,774	1,502,873
With donor restrictions	<u>464,373</u>	<u>623,405</u>
Total net assets	<u>2,404,147</u>	<u>2,126,278</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,851,162</u>	<u>\$ 2,487,038</u>

See accompanying notes to financial statements.

HORTON'S KIDS, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,461,339	\$ 616,222	\$ 3,077,561	\$ 3,083,394
In-kind contributions	761,833	-	761,833	577,551
Investment income, net	152,643	9,578	162,221	49,781
Net assets released from donor restrictions	<u>784,832</u>	<u>(784,832)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>4,160,647</u>	<u>(159,032)</u>	<u>4,001,615</u>	<u>3,710,726</u>
EXPENSES				
Program Services:				
Academics	987,008	-	987,008	790,715
Communication and Marketing	345,229	-	345,229	380,568
Health and Basic Needs	1,134,505	-	1,134,505	748,403
Summer Programs	238,248	-	238,248	103,676
Youth Development	<u>535,224</u>	<u>-</u>	<u>535,224</u>	<u>418,450</u>
Total program services	<u>3,240,214</u>	<u>-</u>	<u>3,240,214</u>	<u>2,441,812</u>
Supporting Services:				
Management and General	225,990	-	225,990	452,911
Fundraising	<u>505,087</u>	<u>-</u>	<u>505,087</u>	<u>326,296</u>
Total supporting services	<u>731,077</u>	<u>-</u>	<u>731,077</u>	<u>779,207</u>
Total expenses	<u>3,971,291</u>	<u>-</u>	<u>3,971,291</u>	<u>3,221,019</u>
Change in net assets before other item	189,356	(159,032)	30,324	489,707
OTHER ITEM				
Extinguishment of debt	<u>247,545</u>	<u>-</u>	<u>247,545</u>	<u>-</u>
Change in net assets	436,901	(159,032)	277,869	489,707
Net assets at beginning of year	<u>1,502,873</u>	<u>623,405</u>	<u>2,126,278</u>	<u>1,636,571</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,939,774</u>	<u>\$ 464,373</u>	<u>\$ 2,404,147</u>	<u>\$ 2,126,278</u>

HORTON'S KIDS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021					Total Program Services
	Program Services					
	Academics	Communications and Marketing	Health and Basic Needs	Summer Programs	Youth Development	
Salaries, wages, benefits and taxes	\$ 612,834	\$ 113,514	\$ 680,509	\$ 39,855	\$ 320,261	\$ 1,766,973
Professional fees	187,080	18,707	169,903	114,378	134,513	624,581
Occupancy expense	61,369	10,231	56,799	6,258	26,849	161,506
Program supplies, activity fees and transportation	59,268	18,703	132,494	74,599	12,274	297,338
Advertising and promotion	-	120,000	-	-	-	120,000
Event supplies and entertainment	-	43,250	-	-	-	43,250
Equipment and artwork	1,539	403	1,650	40	814	4,446
Depreciation and amortization	15,010	2,813	28,665	784	8,400	55,672
Computer services and telecommunications	13,178	2,896	23,418	707	8,731	48,930
Licenses and fees	7,535	3,743	7,614	182	3,679	22,753
Staff development	14,954	3,090	17,217	402	10,790	46,453
Volunteer and development expenses	1,249	178	1,422	120	621	3,590
Office supplies, postage, printing and office expenses	4,351	5,845	4,503	247	2,278	17,224
Insurance	8,641	1,856	10,311	676	6,014	27,498
TOTAL EXPENSES	\$ 987,008	\$ 345,229	\$ 1,134,505	\$ 238,248	\$ 535,224	\$ 3,240,214

See accompanying notes to financial statements.

HORTON'S KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021 (Continued)			2020	
	Supporting Services				
	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Salaries, wages, benefits and taxes	\$ 33,173	\$ 248,716	\$ 281,889	\$ 2,048,862	\$ 1,747,150
Professional fees	96,610	42,750	139,360	763,941	486,356
Occupancy expense	4,161	27,104	31,265	192,771	117,210
Program supplies, activity fees and transportation	-	-	-	297,338	349,705
Advertising and promotion	-	-	-	120,000	120,000
Event supplies and entertainment	-	64,876	64,876	108,126	13,009
Equipment and artwork	75,203	507	75,710	80,156	6,068
Depreciation and amortization	740	5,266	6,006	61,678	75,332
Computer services and telecommunications	688	8,150	8,838	57,768	47,970
Licenses and fees	8,111	24,393	32,504	55,257	29,570
Staff development	552	5,429	5,981	52,434	23,678
Volunteer and development expenses	-	47,129	47,129	50,719	85,149
Office supplies, postage, printing and office expenses	6,235	26,703	32,938	50,162	93,440
Insurance	517	4,064	4,581	32,079	26,382
TOTAL EXPENSES	\$ 225,990	\$ 505,087	\$ 731,077	\$ 3,971,291	\$ 3,221,019

See accompanying notes to financial statements.

HORTON'S KIDS, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 277,869	\$ 489,707
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	61,678	75,332
Unrealized gain	(118,468)	(42,365)
Realized (gain) loss	(24,697)	23,716
Contributions invested in perpetuity	1,800	-
Receipt of donated securities	(56,245)	(2,449)
Proceeds from sale of donated securities	51,450	2,449
Extinguishment of debt	(247,545)	-
Loss on disposal of fixed assets	16,693	438
(Increase) decrease in:		
Grants and contributions receivable	(217,791)	48,247
Prepaid expenses	(36,565)	(18,334)
Increase (decrease) in:		
Accounts payable and accrued liabilities	28,464	(12,900)
Deferred rent	(17,779)	(13,244)
Net cash (used) provided by operating activities	<u>(281,136)</u>	<u>550,597</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(152,010)	(36,120)
Sale of fixed assets	-	8,300
Purchase of investments	(258,415)	(390,718)
Proceeds from sale of investments	<u>173,124</u>	<u>279,714</u>
Net cash used by investing activities	<u>(237,301)</u>	<u>(138,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions invested in perpetuity	(1,800)	-
Proceeds from Paycheck Protection Program loan	<u>323,115</u>	<u>247,545</u>
Net cash provided by financing activities	<u>321,315</u>	<u>247,545</u>
Net (decrease) increase in cash and cash equivalents	(197,122)	659,318
Cash and cash equivalents at beginning of year	<u>991,591</u>	<u>332,273</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 794,469</u>	<u>\$ 991,591</u>
SCHEDULE OF NONCASH TRANSACTIONS		
Extinguishment of Debt	<u>\$ 247,545</u>	<u>\$ -</u>

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Horton's Kids, Inc. (the Organization) is a non-profit organization, incorporated in the Washington, D.C.. For over 30 years, Horton's Kids has empowered children growing up in Southeast DC's most under-resourced neighborhoods. The Organization supports the physical, educational, and social-emotional development of over 500 children in grades PreK-12 annually so that they graduate from high school ready for success in college, career, and life. Our holistic, multi-generational approach provides comprehensive programs and services for children as well as their parents and caregivers—targeting economic assets including housing, job readiness, and health and well-being to promote each individual child's success.

The Organization's programmatic model has four key pillars:

Academic programs ensure participants will graduate from high school prepared for post-secondary success. Aligned to the Common Core, activities include high impact tutoring focusing on literacy, homework help, college/career coaching, and educational advocacy supports.

Youth Development programs help participants develop social-emotional and life skills that are critical to lifelong productivity and happiness. Activities include field trips, sports, mentoring, life skills lessons, and project-based learning. Discussion groups foster positive peer groups, helping participants pursue educational goals together.

Health and Wellness supports ensure that participants have what they need to be healthy and prepared to learn. In partnership with community-based organizations, the Organization provides a range of services including meals, winter coats, school uniforms, vision screening, and diaper distribution. Mental health supports are delivered in partnership with providers who can deliver group and individual therapy. The Organization develops crisis intervention plans to support families with critical needs.

Family and Community Engagement supports ensure parents have access to resources needed for household stability and a voice in organizational planning, including the Parents Council, walk-in hours, access to the computer lab, job posts, resume assistance, food pantry, diapers, and other essential items for the family.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets with Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than the Organization mission and purpose. 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.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Basis of presentation (continued) -

- **Net Assets with Donor Restrictions (continued)** - Donor imposed restrictions are released when the 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. 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 without donor restrictions when the assets are placed in service.

The financial statements include certain prior year summarized comparative information in total but not by net asset class; such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2020, from which the summarized information was derived.

Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Statement of Activities and Change in Net Assets. Investments acquired by gift are recorded at their fair value at the date of the gift. The Organization's policy is to liquidate all gifts of investments as soon as possible after the gift.

Grants and contributions receivable -

Grants and contributions receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$1,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended August 31, 2021 totaled \$61,678.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Impairment of long-lived assets (continued) -

When considered impaired, the carrying amount of the assets is reduced, by a charge to the Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Organization is not a private foundation.

Uncertain tax positions -

For the year ended August 31, 2021, the Organization has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Support and revenue -

The majority of the Organization's activities are supported by grants and contributions from private entities. These awards are for various activities performed by the Organization. Grants and contributions are recognized in the appropriate category of net assets in the period received. The Organization performs an analysis of the individual grant and contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For grants and contributions qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Contributions and grants qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Grants and contributions qualifying as conditional contributions contain a right of return from obligation provision that limits the Organization on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. The Organization recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For grants and contributions treated as conditional contributions, the Organization had no unrecognized awards as of August 31, 2021.

In-kind contributions -

In-kind contributions are recorded at their fair value as of the date of the gift. In addition, volunteers have donated significant amounts of their time to the Organization; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Use of estimates -

The preparation of the 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Advertising -

The Organization expenses advertising costs as incurred. Advertising expense was \$158,000 for the year ended August 31, 2021.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Organization are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Risks and uncertainties -

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Organization adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Organization's operations. The overall potential impact is unknown at this time.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications had no effect on the reported change in net assets.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

New accounting pronouncements not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this ASU address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Organization plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption methods and the impact of the new standards on its accompanying financial statements.

2. **INVESTMENTS**

Investments consisted of the following as of August 31, 2021:

	<u>Fair Value</u>
Securities	\$ 9,373
Exchange Traded and Closed End Funds	261,791
Mutual Funds	<u>758,642</u>
TOTAL	<u>\$ 1,029,806</u>

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

2. INVESTMENTS (Continued)

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended August 31, 2021. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Securities and Exchange Traded and Closed End Funds* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual Funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Organization are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy and those invested and measured at NAV as a practical expedient as of August 31, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Securities	\$ 9,373	\$ -	\$ -	\$ 9,373
Exchange Traded and Closed End Funds	261,791	-	-	261,791
Mutual Funds	<u>758,642</u>	<u>-</u>	<u>-</u>	<u>758,642</u>
TOTAL	<u>\$ 1,029,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,029,806</u>

3. PAYCHECK PROTECTION PROGRAM LOAN

On April 20, 2020, the Organization received loan proceeds in the amount of \$247,545 with a 1% fixed interest rate under the Paycheck Protection Program (PPP Loan 1). The promissory note called for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first ten months after the last day of the covered period. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The promissory note was forgiven by the Small Business Administration in whole on April 20, 2021, and the Organization recognized revenue as extinguishment of debt during the year ended August 31, 2021 in the accompanying Statement of Activities and Change in Net Assets.

On April 14, 2021, the Organization also entered into a five-year promissory note agreement in the amount of \$323,115 under the Paycheck Protection Program (PPP Loan 2). The promissory note calls for monthly principal and interest payments amortized over the five-year term of the promissory note. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note qualifies for forgiveness by the Small Business Administration in whole or in part.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

3. PAYCHECK PROTECTION PROGRAM LOAN (Continued)

The Organization intends to use the proceeds for purposes consistent with the Paycheck Protection Program, and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. Subsequent to year end, the Organization applied for and was granted forgiveness of the Paycheck Protection Program loan. The Organization will recognize revenue for the debt extinguishment during the year ending August 31, 2022. As the Organization received loan forgiveness during the year ending August 31, 2022, it is recorded as a current liability in the accompanying Statement of Financial Position.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at August 31, 2021:

Subject to expenditure for specified purpose:	
Youth Development	\$ 24,007
Academic	55,088
Health and Basic Needs	22,342
Accumulated endowment earnings not yet appropriated for expenditure	<u>8,561</u>
Subtotal	109,998
Subject to passage of time	300,000
Endowment to be invested in perpetuity	<u>54,375</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 464,373</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished:	
Youth Development	\$ 163,904
Academic	226,143
Health and Basic Needs	187,318
Management and General	16,800
Timing restrictions accomplished	<u>190,667</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 784,832</u>

5. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 794,469
Investments	1,029,806
Grants and contributions receivable	<u>330,211</u>
Subtotal financial assets available within one year	2,154,486
Less: Donor restricted funds	<u>(164,373)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,990,113</u>

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

5. LIQUIDITY AND AVAILABILITY (Continued)

The Organization has a policy to structure its financial assets to be available and liquid as its obligations become due.

6. IN-KIND CONTRIBUTIONS

During the year ended August 31, 2021, the Organization was the beneficiary of donated goods and services which allowed the Organization to provide greater resources toward various programs.

To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended August 31, 2021.

Equipment and Artwork	\$ 38,000
Advertising and Promotion	120,000
Professional Fees	533,884
Program Supplies	<u>69,949</u>
TOTAL	<u>\$ 761,833</u>

The following programs have benefited from these donated services:

Academics	\$ 241,915
Communication and Marketing	135,000
Health and Basic Needs	181,900
Youth Development	114,820
Other	<u>88,198</u>
TOTAL	<u>\$ 761,833</u>

7. LEASE COMMITMENTS

In December 2018, the Organization entered into a lease for office space for a period of five years, expiring February 28, 2023. The terms of this lease require monthly payments of \$8,391 and 2.3% annual increases effective January 1 of each year. The Organization subleased additional office space in April 1, 2020 under a lease that expires on December 31, 2022 with a 3.8 % increase on the anniversary of the sublease agreement.

The following is a schedule of the future minimum lease payments:

Year Ending August 31,

2022	\$ 127,757
2023	<u>116,983</u>
	<u>\$ 244,740</u>

Rent expense for the year ended August 31, 2021 was \$173,805 and is included in the occupancy expense in the accompanying Statement of Functional Expenses.

HORTON'S KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
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8. RETIREMENT PLAN

The Organization provides retirement benefits to its employees through a defined contribution plan covering all full-time employees over 21 years of age who are eligible to participate. The Organization provides a 100% match of each eligible employee's contribution, up to 3% of covered compensation. Contributions to the plan during the year ended August 31, 2021 totaled \$24,418.

9. ENDOWMENT

The Organization's endowment consists of donor-restricted endowment funds and funds designated by the governing Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the Organization.

Endowment net asset composition by type of fund as of August 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 54,375	\$ 54,375
Accumulated investment earnings	-	8,561	8,561
TOTAL ENDOWMENT FUNDS	\$ -	\$ 62,936	\$ 62,936

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
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9. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended August 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 52,575	\$ 52,575
Investment return, net	-	9,578	9,578
Contributions	-	1,800	1,800
Appropriation of endowment assets for expenditure	-	(1,017)	(1,017)
ENDOWMENT NET ASSETS, END OF YEAR	\$ -	\$ 62,936	\$ 62,936

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature did not exist as of August 31, 2021.

Return Objectives and Risk Parameters -

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Organization has a policy of appropriating for distribution each year based off of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to gradually grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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**NOTES TO FINANCIAL STATEMENTS
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10. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 1, 2022, the date the financial statements were issued.