

FINANCIAL STATEMENTS



Horton's Kids

**FOR THE YEAR ENDED AUGUST 31, 2023
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2022**

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.

Opinion

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, 2023, 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.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

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The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



December 12, 2023

HORTON'S KIDS, INC.

STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 546,784	\$ 806,154
Investments	495,751	599,753
Grants and contributions receivable	1,804,756	1,198,645
Prepaid expenses	<u>40,320</u>	<u>166,309</u>
Total current assets	<u>2,887,611</u>	<u>2,770,861</u>
FIXED ASSETS		
Land	338,766	338,766
Building	5,699,191	4,291,981
Furniture and equipment	165,711	195,354
Vehicles	22,797	22,797
Leasehold improvements	<u>9,373</u>	<u>349,414</u>
	6,235,838	5,198,312
Less: Accumulated depreciation and amortization	<u>(256,491)</u>	<u>(445,012)</u>
Net fixed assets	<u>5,979,347</u>	<u>4,753,300</u>
NONCURRENT ASSETS		
Grants and contributions receivable, net	<u>46,600</u>	<u>192,174</u>
TOTAL ASSETS	<u>\$ 8,913,558</u>	<u>\$ 7,716,335</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 71,427	\$ 121,066
Construction project payable	48,776	839,024
Deferred rent	<u>-</u>	<u>11,712</u>
Total current liabilities	120,203	971,802
NONCURRENT LIABILITIES		
Loan payable, net	<u>4,018,060</u>	<u>2,416,080</u>
Total liabilities	<u>4,138,263</u>	<u>3,387,882</u>
NET ASSETS		
Without donor restrictions	3,097,918	2,763,992
With donor restrictions	<u>1,677,377</u>	<u>1,564,461</u>
Total net assets	<u>4,775,295</u>	<u>4,328,453</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,913,558</u>	<u>\$ 7,716,335</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, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022**

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,409,604	\$ 2,114,603	\$ 4,524,207	\$ 5,557,047
In-kind contributions	420,489	-	420,489	398,990
Investment income (loss), net	24,618	3,206	27,824	(105,825)
Other revenue	-	-	-	912
Net assets released from donor restrictions	<u>2,004,893</u>	<u>(2,004,893)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>4,859,604</u>	<u>112,916</u>	<u>4,972,520</u>	<u>5,851,124</u>
EXPENSES				
Program Services:				
Academics	1,068,555	-	1,068,555	921,917
Communications and Marketing	502,524	-	502,524	439,454
Health and Wellness	771,342	-	771,342	716,094
Community and Family Engagement	638,757	-	638,757	564,881
Youth Development	<u>899,166</u>	<u>-</u>	<u>899,166</u>	<u>675,932</u>
Total program services	<u>3,880,344</u>	<u>-</u>	<u>3,880,344</u>	<u>3,318,278</u>
Supporting Services:				
Management and General	324,818	-	324,818	166,502
Fundraising	<u>812,170</u>	<u>-</u>	<u>812,170</u>	<u>765,153</u>
Total supporting services	<u>1,136,988</u>	<u>-</u>	<u>1,136,988</u>	<u>931,655</u>
Total expenses	<u>5,017,332</u>	<u>-</u>	<u>5,017,332</u>	<u>4,249,933</u>
Change in net assets before other items	(157,728)	112,916	(44,812)	1,601,191
OTHER ITEMS				
Employee retention tax credit	491,654	-	491,654	-
Extinguishment of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>323,115</u>
Change in net assets	333,926	112,916	446,842	1,924,306
Net assets at beginning of year	<u>2,763,992</u>	<u>1,564,461</u>	<u>4,328,453</u>	<u>2,404,147</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,097,918</u>	<u>\$ 1,677,377</u>	<u>\$ 4,775,295</u>	<u>\$ 4,328,453</u>

HORTON'S KIDS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022**

	2023					
	Program Services					
	Academics	Communications and Marketing	Health and Wellness	Community and Family Engagement	Youth Development	Total Program Services
Salaries, wages, benefits and taxes	\$ 667,037	\$ 171,463	\$ 398,889	\$ 339,605	\$ 435,357	\$ 2,012,351
Program supplies, activity fees and transportation	111,353	4,764	160,544	94,272	199,953	570,886
Professional fees	58,348	36,748	46,597	43,227	46,926	231,846
Occupancy expense	61,809	10,032	54,043	52,647	61,429	239,960
Depreciation and amortization	44,002	10,316	44,002	44,219	44,002	186,541
Advertising and promotion	-	179,062	-	-	-	179,062
Event supplies and entertainment	-	49,331	-	-	-	49,331
Equipment	44,749	3,903	19,722	18,638	42,288	129,300
Staff development	29,019	2,502	8,013	7,819	23,692	71,045
Office supplies, postage, printing and office expenses	8,358	23,095	4,067	3,858	4,464	43,842
Licenses and fees	8,779	3,729	7,419	7,513	7,867	35,307
Insurance	9,942	2,651	9,942	9,942	9,942	42,419
Computer services and telecommunications	12,472	2,665	9,618	8,531	10,559	43,845
Loss on disposal of assets	8,486	2,263	8,486	8,486	8,486	36,207
Development and volunteer expenses	4,201	-	-	-	4,201	8,402
TOTAL	\$ 1,068,555	\$ 502,524	\$ 771,342	\$ 638,757	\$ 899,166	\$ 3,880,344

See accompanying notes to financial statements.

HORTON'S KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

	2023 (Continued)			2022	
	Supporting Services			Total Expenses	Total Expenses
	Management and General	Fundraising	Total Supporting Services		
Salaries, wages, benefits and taxes	\$ 213,045	\$ 331,033	\$ 544,078	\$ 2,556,429	\$ 2,311,742
Program supplies, activity fees and transportation	-	-	-	570,886	333,206
Professional fees	23,196	244,402	267,598	499,444	572,829
Occupancy expense	21,026	20,076	41,102	281,062	200,287
Depreciation and amortization	20,414	20,631	41,045	227,586	59,925
Advertising and promotion	-	-	-	179,062	177,872
Event supplies and entertainment	-	113,393	113,393	162,724	137,845
Equipment	5,175	7,142	12,317	141,617	43,291
Staff development	4,379	5,824	10,203	81,248	74,186
Office supplies, postage, printing and office expenses	21,920	5,247	27,167	71,009	59,007
Licenses and fees	2,136	24,188	26,324	61,631	58,627
Insurance	5,303	5,302	10,605	53,024	34,987
Computer services and telecommunications	3,483	4,577	8,060	51,905	131,887
Loss on disposal of assets	4,741	4,526	9,267	45,474	-
Development and volunteer expenses	-	25,829	25,829	34,231	54,242
TOTAL	\$ 324,818	\$ 812,170	\$ 1,136,988	\$ 5,017,332	\$ 4,249,933

See accompanying notes to financial statements.

HORTON'S KIDS, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 446,842	\$ 1,924,306
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	227,586	59,925
Unrealized (gain) loss	(2,319)	184,877
Realized gain	(10,295)	(50,562)
Contributions invested in perpetuity	-	1,500
Change in discount on long-term receivables	-	36,642
Receipt of donated securities	(19,536)	(25,192)
Proceeds from sale of donated securities	7,153	10,316
Extinguishment of debt	-	(323,115)
Loss on disposal of fixed assets	45,474	-
(Increase) decrease in:		
Grants and contributions receivable	(460,537)	(1,097,250)
Prepaid expenses	125,989	(55,782)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(49,639)	30,340
Deferred rent	(11,712)	(21,462)
Net cash provided by operating activities	<u>299,006</u>	<u>674,543</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(2,289,355)	(3,388,052)
Purchase of investments	(51,178)	(50,794)
Proceeds from sale of investments	<u>180,177</u>	<u>361,408</u>
Net cash used by investing activities	<u>(2,160,356)</u>	<u>(3,077,438)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	1,601,980	2,458,063
Debt issuance costs	-	(41,983)
Contributions invested in perpetuity	<u>-</u>	<u>(1,500)</u>
Net cash provided by financing activities	<u>1,601,980</u>	<u>2,414,580</u>
Net (decrease) increase in cash and cash equivalents	(259,370)	11,685
Cash and cash equivalents at beginning of year	<u>806,154</u>	<u>794,469</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 546,784</u></u>	<u><u>\$ 806,154</u></u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u><u>\$ 85,287</u></u>	<u><u>\$ 50,462</u></u>
SCHEDULE OF NONCASH TRANSACTIONS:		
Extinguishment of Debt	<u><u>\$ -</u></u>	<u><u>\$ 323,115</u></u>
Fixed Assets Included in Construction Project Payable at Year-End	<u><u>\$ 48,776</u></u>	<u><u>\$ 839,024</u></u>

See accompanying notes to financial statements.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2023

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. Their 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.

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.

Community and Family 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.

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.

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, 2023

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, 2022, 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 (loss), 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. Receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. Management considers all amounts to be fully collectible. 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. The useful life of the building is 40 years, building renovations have useful lives ranging from 21 to 25 years and the useful lives of vehicles and furniture and equipment is 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, 2023 totaled \$227,586.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

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

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. 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, 2023, 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.

Debt issuance costs -

In accordance with the FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, the Organization presents debt issuance costs in the financial statement as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense.

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).

HORTON'S KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023**

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

Support and revenue (continued) -

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 approximately \$410,000 in conditional unrecognized awards as of August 31, 2023.

In-kind contributions -

In-kind contributions consist of advertising and promotion services, professional fees, program supplies and equipment, software licenses and donated space. Goods donated for distribution for the Organization's programs are recorded at their fair market value as of the date of the gift. Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. 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.

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 \$179,062 for the year ended August 31, 2023.

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.

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2023

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

Fair value measurement -

The Organization applies 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.

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.

New accounting pronouncement not yet adopted -

ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Organization for the year ending August 31, 2024. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organization plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

2. INVESTMENTS

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.

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.

HORTON'S KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023**

2. INVESTMENTS (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used and there were no transfers between levels in the fair value hierarchy during the year ended August 31, 2023. 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 as of August 31, 2023.

	Level 1	Level 2	Level 3	Total
Investments:				
Securities	\$ 38,895	\$ -	\$ -	\$ 38,895
Exchange Traded and Closed End Funds	135,030	-	-	135,030
Mutual Funds	321,826	-	-	321,826
TOTAL INVESTMENTS	\$ 495,751	\$ -	\$ -	\$ 495,751

Included in investment income, net are the following:

Interest and dividends	\$ 21,185
Unrealized gain	2,319
Realized gain	10,295
Investment fees	(5,975)
TOTAL INVESTMENT INCOME, NET OF INVESTMENT EXPENSES	\$ 27,824

3. EMPLOYEE RETENTION CREDIT

During the year ended August 31, 2023, Horton's Kids applied for \$491,654 in funds related to the Employee Retention Credit (ERC). This revenue is presented as an Other Item in the Statement of Activities and Change in Net Assets. As of August 31, 2023, the full amount remained uncollected, and is included with grants and contributions receivable in the Statement of Financial Position, and has yet to be collected subsequent to year-end.

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

As of August 31, 2023, contributors to the Organization have made unconditional written promises to give, of which \$1,887,998, remained due and outstanding. Amounts due beyond one year of the Statement of Financial Position date have been recorded at the present value of the estimated cash flows, using a discount rate ranging from 5.54% to 6.37%. Following is a schedule of amounts due, by year, as of August 31, 2023:

Less than one year	\$ 1,804,756
One to five years	83,242
Total	1,887,998
Less: Allowance to discount balance to present value	(36,642)
NET RECEIVABLES	\$ 1,851,356

HORTON'S KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023**

5. LOAN PAYABLE

In December 2021, the Organization entered into a loan payable (the Loan) with a financial institution for the purchase of a building and to finance the renovation and improvement of the property. The property serves as collateral for the Loan.

The Loan has a balance of the amount advanced to the Organization pursuant to the terms and conditions of the Loan agreement, with a ceiling amount of \$4,320,000. The balance of the Loan bears interest at a fixed rate of 3.56% per annum. Interest payments commenced on January 1, 2022 and are payable monthly thereafter. Commencing on January 1, 2025 and continuing on the same day of each month thereafter, the Organization shall repay the principal, together with interest accrued and unpaid thereon, in equal combined installments in an amount sufficient to fully amortize principal and interest over an amortization period of thirty (30) years. During the year ended August 31, 2023 the Organization made additional draws on the loan amounting to \$1,601,980. As of August 31, 2023, the outstanding loan balance is \$4,060,043.

As of August 31, 2023, the total outstanding balance of the Loan payable is as follows:

Loan payable	\$ 4,060,043
Less deferred financing costs	<u>(41,983)</u>
LOAN PAYABLE, NET	<u>\$ 4,018,060</u>

Principal payments are due as follows:

Year Ending August 31,

2025	\$ 57,586
2026	79,209
2027	82,075
2028	85,045
Thereafter	<u>3,756,128</u>
	<u>\$ 4,060,043</u>

The loan agreements contain various covenants, which among other things, place restrictions on the Organization's ability to incur additional indebtedness and requires the Organization to maintain certain financial ratios.

Interest expense on the Loan during the year ending August 31, 2023 totaled \$96,944.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at August 31, 2023:

Subject to expenditure for specified purpose:	
Building purchase, renovation and capacity building	\$ 1,538,809
Academics	55,744
Health and Wellness	22,331
Youth Development	2,912
Accumulated endowment earnings not yet appropriated for expenditure	<u>1,706</u>
Subtotal	1,621,502
Endowment to be invested in perpetuity	<u>55,875</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 1,677,377</u>

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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:	
Building Renovations	\$ 807,677
Academics	502,128
Health and Wellness	433,629
Youth Development	236,459
Timing restrictions accomplished	<u>25,000</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 2,004,893</u>

7. 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	\$ 546,784
Investments	495,751
Grants and contributions receivable	<u>1,804,756</u>
Subtotal financial assets available	2,847,291
Less: Donor restricted funds	<u>(1,677,377)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,169,914</u>

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

8. IN-KIND CONTRIBUTIONS

During the year ended August 31, 2023, the Organization was the beneficiary of donated goods and services which allowed the Organization to provide greater resources toward various programs.

In-kind contributions are recorded as contribution revenue and allocated across the functional categories within the accompanying Statement of Activities and Change in Net Assets. In-kind contributions are valued at the standard hourly rates charged for those services, or the prices that would be charged for the product in the normal market. There were no donor restrictions over the in-kind contributions received by the Organization.

To properly reflect in-kind contributions, the following donations have been included in revenue and expense for the year ended August 31, 2023.

Advertising and Promotion	\$ 179,062
Professional Fees	8,850
Program Supplies	157,258
Use of Space	51,520
Media Lab Equipment	<u>23,799</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 420,489</u>

HORTON'S KIDS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2023

8. IN-KIND CONTRIBUTIONS (Continued)

The following programs have benefited from these donated services:

Academics	\$ 33,900
Communications and Marketing	183,821
Health and Wellness	121,907
Community and Family Engagement	48,656
Youth Development	23,116
Other	<u>9,089</u>
TOTAL PROGRAMS BENEFITED	<u>\$ 420,489</u>

9. 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 required monthly payments of \$8,391 and 2.3% annual increases effective January 1 of each year. The Organization subleased office space on April 1, 2020 under a lease that expired on December 31, 2022. The terms of this lease required monthly payments of approximately \$1,600 with a 3.8% increase on the anniversary of the sublease agreement.

Rent expense for the year ended August 31, 2023 was \$14,760 and is included in occupancy expense in the accompanying Statement of Functional Expenses.

There are no future minimum lease payments as of August 31, 2023.

10. 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, 2023 totaled \$29,750, and are included in Salaries, wages, benefits and taxes in the accompanying Statement of Functional Expenses.

11. ENDOWMENT

The Organization's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds 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.

HORTON'S KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023**

11. ENDOWMENT (Continued)

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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 55,875	\$ 55,875
Accumulated investment earnings	-	1,706	1,706
TOTAL ENDOWMENT FUNDS	\$ -	\$ 57,581	\$ 57,581

Changes in endowment net assets for the year ended August 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ (1,822)	\$ 55,875	\$ 54,053
Investment earnings	1,822	3,206	5,028
Appropriation of endowment assets for expenditure	-	(1,500)	(1,500)
ENDOWMENT NET ASSETS, END OF YEAR	\$ -	\$ 57,581	\$ 57,581

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. As of August 31, 2023, there were no deficiencies related to the fair value of the endowment net assets.

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.

HORTON'S KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023**

11. ENDOWMENT (Continued)

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.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 12, 2023, the date the financial statements were issued.