HOPEKIDS, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

HOPEKIDS, INC.
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
HopeKids, Inc.
Scottsdale, Arizona

We have audited the accompanying financial statements of HopeKids, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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.

Board of Directors
HopeKids, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the change 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
May 3, 2019

HOPEKIDS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,584,473	$ 2,208,797
Investments	837,952	256,313
Contributions Receivable	29,479	47,410
Prepaid Expenses and Other Assets	41,972	50,338
Total Current Assets	2,493,876	2,562,858
PROPERTY AND EQUIPMENT, Net	20,897	29,683
Total Assets	$ 2,514,773	$ 2,592,541
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued Expenses and Credit Card Payable	$ 30,090	$ 27,195
Deferred License Fee	4,636	2,307
License Fee Incentive Liability	10,000	16,667
Total liabilities	44,726	46,169
NET ASSETS		
Without Donor Restrictions	2,223,124	2,076,144
With Donor Restrictions	246,923	470,228
Total Net Assets	2,470,047	2,546,372
Total Liabilities and Net Assets	$ 2,514,773	$ 2,592,541

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES						
Contributions	$ 2,156,508	$ 34,000	$ 2,190,508	$ 1,910,454	$ 482,742	$ 2,393,196
Contributed Goods and Services	2,225,435	-	2,225,435	1,995,002	-	1,995,002
Investment Income, Net	19,861	-	19,861	4,684	-	4,684
Other	14,485	-	14,485	26,191	-	26,191
Net Assets Released from Restrictions	257,305	(257,305)	-	241,624	(241,624)	-
Total Support and Revenues	4,673,594	(223,305)	4,450,289	4,177,955	241,118	4,419,073
EXPENSES						
Program Services	3,670,689	-	3,670,689	3,415,521	-	3,415,521
Management and General	392,130	-	392,130	170,247	-	170,247
Fundraising	463,795	-	463,795	492,619	-	492,619
Total Expenses	4,526,614	-	4,526,614	4,078,387	-	4,078,387
CHANGE IN NET ASSETS	146,980	(223,305)	(76,325)	99,568	241,118	340,686
Net Assets - Beginning of Year	2,076,144	470,228	2,546,372	1,976,576	229,110	2,205,686
NET ASSETS - END OF YEAR	$ 2,223,124	$ 246,923	$ 2,470,047	$ 2,076,144	$ 470,228	$ 2,546,372

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
EXPENSES					
Salaries	$ 734,438	$ 82,226	$ 187,025	$ 269,251	$ 1,003,689
Payroll Taxes and Fringe Benefits	177,442	19,866	45,186	65,052	242,494
HopeDay and HopeCommunity Program	2,560,776	-	-	-	2,560,776
Office	41,253	9,655	8,856	18,511	59,764
Outside Services	70,407	75,504	2,293	77,797	148,204
Fundraising	-	-	201,559	201,559	201,559
Occupancy	7,876	763	1,691	2,454	10,330
Insurance	15,787	1,655	3,723	5,378	21,165
Travel	12,295	1,190	2,639	3,829	16,124
Depreciation and Amortization	8,631	836	1,853	2,689	11,320
Donated Marketing	-	166,025	-	166,025	166,025
Miscellaneous	41,784	34,410	8,970	43,380	85,164
Total Expenses	$ 3,670,689	$ 392,130	$ 463,795	$ 855,925	$ 4,526,614

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
EXPENSES					
Salaries	$ 615,209	$ 77,520	$ 195,320	$ 272,840	$ 888,049
Payroll Taxes and Fringe Benefits	137,660	17,346	43,705	61,051	198,711
HopeDay and HopeCommunity Program	2,450,877	-	-	-	2,450,877
Office	28,373	11,255	9,008	20,263	48,636
Outside Services	80,871	23,760	10,006	33,766	114,637
Fundraising	-	-	202,028	202,028	202,028
Occupancy	5,787	729	1,837	2,566	8,353
Insurance	18,494	2,330	5,872	8,202	26,696
Travel	17,162	2,163	5,449	7,612	24,774
Depreciation	4,921	620	1,562	2,182	7,103
Donated Marketing	35,450	-	-	-	35,450
Miscellaneous	20,717	34,524	17,832	52,356	73,073
Total Expenses	$ 3,415,521	$ 170,247	$ 492,619	$ 662,866	$ 4,078,387

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (76,325)	$ 340,686
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	11,320	7,103
Net Realized and Unrealized Losses on Investments	7,031	2,124
(Increase) Decrease in Assets:		
Contributions Receivable	17,931	(19,004)
Prepaid Expenses and Other Assets	8,366	(10,029)
Increase (Decrease) in Liabilities:		
Accrued Expenses and Other Liabilities	2,895	8,577
Deferred License Fee	2,329	2,307
License Fee Incentive Liability	(6,667)	(3,333)
Net Cash Provided (Used) by Operating Activities	(33,120)	328,431
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(2,534)	(6,721)
Purchase of Investments	(751,250)	(269,466)
Proceeds from Sales of Investments	162,580	21,379
Net Cash Used by Investing Activities	(591,204)	(254,808)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(624,324)	73,623
Cash and Cash Equivalents - Beginning of Year	2,208,797	2,135,174
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,584,473	$ 2,208,797
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Leasehold Improvements Added as a Leasehold Incentive	$ -	$ 20,000

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

HopeKids, Inc. (the Organization) is an Arizona nonprofit corporation. The Organization was established in 2001 to restore hope and transform lives of children who are fighting life-threatening illnesses. The Organization believes that by bringing joy to these remarkable children and their families via an ongoing schedule of special events and activities, they can help cultivate hope, acceptance, and most importantly, the will to live. The Organization has chapters in Arizona, Minnesota, Colorado, Texas, and the Kansas City area.

Basis of Presentation

The accompanying financial statements are presented in accordance with American Institute of Certified Public Accountants (AICPA) *Not-for-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance)*. Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Resources over which the board of directors has discretionary control. Designated amounts represent amounts which the board has set aside for a particular purpose.

Net assets with donor restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted explicitly by donor stipulation or by law. Expirations of net assets with donor restrictions, i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in net assets without donor restrictions net assets.

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 a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization classifies amounts on deposit in banks and cash invested in instruments with original maturities of three months or less as cash and cash equivalents.

Investments

Investments consist primarily of fixed income corporate bonds and stocks that are recorded at fair value as determined by quoted prices for similar assets and liabilities in active markets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the change of net assets in the accompanying statements of activities.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The contributions receivable at December 31, 2018 and 2017 are considered to be fully collectible by management and, accordingly, an allowance for doubtful accounts is not deemed necessary.

Property and Equipment

Property and equipment with a cost greater than $1,000 are capitalized at historical cost or estimated historical cost if actual historical cost is not available. Donated property and equipment are recorded at the fair value at the date of gift to the Organization. Depreciation and amortization of property and equipment is computed on a straight-line basis over their estimated useful lives, which range from three to five years. Maintenance and repairs are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management does not believe impairment indicators were present at December 31, 2018 and 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for general operations unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a with donor restriction expire, net assets with donor restricted are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed Goods and Services

Noncash contributions are recorded at their fair values. The Organization receives gifts such as events, tickets, and the like in order to give to families who have a child with a life-threatening illness. These noncash items are recorded as noncash revenue at time of receipt and recorded to program expenses when given to families. The noncash contributions are almost immediately given to families so at any time during the year the Organization has no material inventory on hand. A summary of contributed goods and services is as follow for the years ended December 31:

	2018			
	Program	Management and General	Fundraising	Total
Program Events	$ 1,980,073	$ -	$ -	$ 1,980,073
Marketing	-	166,025	-	166,025
Professional IT Services	39,968	-	-	39,968
Other	23,864	2,311	5,123	31,298
Internet Services	6,154	596	1,321	8,071
Total	$ 2,050,059	$ 168,932	$ 6,444	$ 2,225,435

	2017			
	Program	Management and General	Fundraising	Total
Program Events	$ 1,936,704	$ -	$ -	$ 1,936,704
Marketing	35,450	-	-	35,450
Professional IT Services	14,777	-	-	14,777
Internet Services	6,154	596	1,321	8,071
Total	$ 1,993,085	$ 596	$ 1,321	$ 1,995,002

During year ended December 31, 2018, the Organization received an unsolicited contributed donations for marketing valued at $100,000 from the Minnesota Twins stadium. The advertising was not used to raise funds for the organization, but to raise awareness of the Organization’s programs. Management believes that this donation was an unusual occurrence and they do not expect to receive it in the future.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy at the measurement date. This fair value hierarchy maximizes the use of observable inputs by requiring that the observable inputs be used when available. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, there is no provision for federal or state corporate income taxes. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the IRC.

Management believes that no uncertain tax positions exist for the Organization at December 31, 2018 and 2017.

Change in Accounting Principle

On August 18, 2016, 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, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability disclosure, which is only for 2018, as allowed by the standard.

NOTE 2 LIQUIDITY AND AVAILABILITY

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:

Total Financial Assets	$ 2,514,773
Less Financial Assets not Available for Expenditures:	
Prepaid Expenses	(41,972)
Property and Equipment	(20,897)
Total Financial Assets not Available for Expenditures	(62,869)
Donor-Imposed Restrictions:	
Restricted Funds	(246,923)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 2,204,981

The Organization receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization forecasts its future cash flows and monitors its liquidity reserves monthly.

NOTE 3 FAIR VALUE

The overall investment objective of the Organization is to invest its assets with a conservative investment strategy to manage risks using the conservation of principal to enable easy access to funds.

Investments at December 31, 2018 and 2017 consist of corporate bonds that are considered Level 2 investments.

Total investment income, gains, and losses consist of the following for the years ended December 31:

	2018	2017
Interest and Dividend Income	$ 29,425	$ 7,136
Realized and Unrealized Losses, Net	(7,031)	(2,124)
Less: Investment Expenses	(2,533)	(328)
Investment Income, Net	$ 19,861	$ 4,684

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Software	$ 89,880	$ 89,880
Leasehold Improvements	20,000	20,000
Office Equipment	28,836	26,302
Total Property and Equipment	138,716	136,182
Less: Accumulated Depreciation and Amortization	(117,819)	(106,499)
Property and Equipment, Net	$ 20,897	$ 29,683

Depreciation and amortization expense was $11,320 and $7,103 and for the years ended December 31, 2018 and 2017, respectively.

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are time restricted for both years ended December 31, 2018 and 2017.

NOTE 6 DONATED SERVICES

Donated services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations. Donated services meeting these criteria totaled $39,968 and $14,777 for the years ended December 31, 2018 and 2017, respectively.

The Organization also received donated services from unpaid volunteers at HopeDay and HopeCommunity Program events throughout the years ended December 31, 2018 and 2017. No amounts have been recognized in the statements of activities because the criteria for recognition have not been satisfied.

NOTE 7 FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are as follows:

- Salaries, payroll and fringe benefits and insurance – based on the result of all employee's time study multiplied by each employee's salary and resulting in a bottom line percentage.
- Office – based on the result of all employee's time study added and resulting in a bottom line percentage. Postage, grouped with this category, is charged 100% to management and general.
- Occupancy, insurance, travel, depreciation and amortization – based on the result of all employee's time study added and resulting in a bottom line percentage.
- Outside services – only cost for donor software is allocated based on estimated time of use of the software and the rest of the costs grouped with this category are allocated to management and general.
- Miscellaneous – based on the result of all employee's time study added and resulting in a bottom line percentage. Bank fees and dues and fees, grouped with this category, are charged 100% to management and general.

NOTE 8 RELATED PARTY TRANSACTION

The Organization does not have office space and the employees work from their homes at no cost to the Organization.

NOTE 9 CONCENTRATION OF CREDIT RISK

The Organization maintains all of its cash with high-credit quality financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Balances in excess of FDIC limits are uninsured. As of December 31, 2018 and 2017, a significant portion of the cash balance was in excess of the FDIC insurance coverage limit.

For the year ended December 31, 2018, there were no concentrations in contributions. For the year ended December 31, 2017, one donor accounted for 17% of total contributions.

NOTE 10 RETIREMENT PLANS

The Organization has outsourced its payroll and benefits function to Insperity, a Professional Organization (PEO). Under the Organization's co-employment agreement, Insperity established a 401(k) retirement savings plan for the employees. The Organization makes the employees aware of the plan, withholds voluntary contributions from paychecks, and remits the contributions to an independent trustee. Each participant may contribute their eligible compensation on a pretax basis to the plan up to a maximum allowed by the IRC. Total employer contributions to the plan were $37,989 and $31,848 for fiscal years 2018 and 2017, respectively.

NOTE 11 COMMITMENTS

The Organization has a contract to pay a license fee for a suite for professional sports played at the Talking Stick Resort Arena in Arizona. The term of the contract ends on June 30, 2020. The commitment outstanding for the remainder of the contract is $239,931 at December 31, 2018. A deferred license fee is recorded on the books for the difference between the cash paid and the straight-line payments over the life of the contract. In conjunction with this contract, the Organization obtained a suite remodel credit of $20,000, which is being amortized over the life of the contract and recorded as an incentive liability at year-end.

NOTE 12 SUBSEQUENT EVENTS

The Organization opened a new chapter in Middle Tennessee in March 2019.

Management evaluated subsequent events through May 3, 2019, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2018, but prior to May 3, 2019 that provided additional evidence about conditions that existed at December 31, 2018, have been recognized in the financial statements for the year ended December 31, 2018. Events or transactions that provided evidence about conditions that did not exist at December 31, 2018, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2018.