Hope Center for Kids, Inc.

Financial Statements
December 31, 2016, with
Comparative Totals for 2015
and Supplementary Information
December 31, 2016

Together with Independent Auditor's Report

Hope Center for Kids, Inc.

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Independent Auditor's Report

To the Board of Directors of
Hope Center for Kids, Inc.
Omaha, Nebraska:

Report on the Financial Statements

We have audited the accompanying financial statements of Hope Center for Kids, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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 Hope Center for Kids, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Hope Center for Kids, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information (Exhibit 1) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Seim Johnson, LLP

Omaha, Nebraska,
March 15, 2017.

Hope Center for Kids, Inc.

Statement of Financial Position
December 31, 2016, with Comparative Totals for 2015

		2016	2015
ASSETS			
Cash and cash equivalents	$	833,948	601,907
Pledges receivable		118,357	100,379
Prepaid expenses		18,462	18,133
Assets limited as to use		112,749	255,444
Property and equipment, net		3,985,764	4,148,576
Total assets	$	5,069,280	5,124,439
LIABILITIES AND NET ASSETS			
Accounts payable -			
Trade	$	28,923	33,375
Property and equipment		12,455	--
Accrued salaries, wages and payroll taxes payable		47,201	33,541
Accrued vested benefits		17,176	16,428
Tenant rent deposit		500	--
Long-term debt and capital lease obligation		788,148	881,030
Total liabilities		894,403	964,374
Net assets -			
Unrestricted		3,943,771	3,802,692
Temporarily restricted		214,106	340,373
Permanently restricted		17,000	17,000
Total net assets		4,174,877	4,160,065
Total liabilities and net assets	$	5,069,280	5,124,439

See notes to financial statements

Hope Center for Kids, Inc.

Statement of Activities
For the Year Ended December 31, 2016, with Comparative Totals for 2015

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
REVENUE, GAINS AND OTHER SUPPORT:					
Contributions	$ 1,860,747	148,024	--	2,008,771	1,791,894
Special events income (net of direct expenses of $88,224 and $104,139 in 2016 and 2015, respectively)	311,147	--	--	311,147	526,639
Other income	34,499	--	--	34,499	32,249
Gain from receipt of insurance proceeds	64,315	--	--	64,315	--
Net assets released from restrictions	274,291	(274,291)	--	--	--
Total revenue, gains and other support	2,544,999	(126,267)	--	2,418,732	2,350,782
EXPENSES:					
Program services:					
Omaha learning programs	1,347,039	--	--	1,347,039	1,310,553
Kid's Café	92,236	--	--	92,236	72,944
Skating rink	181,733	--	--	181,733	163,869
Fremont Hope Center	398,475	--	--	398,475	227,590
Total program services	2,019,483	--	--	2,019,483	1,774,956
Management and general	261,491	--	--	261,491	161,546
Fundraising	122,946	--	--	122,946	279,979
Total expenses	2,403,920	--	--	2,403,920	2,216,481
CHANGE IN NET ASSETS	141,079	(126,267)	--	14,812	134,301
NET ASSETS, beginning of year	3,802,692	340,373	17,000	4,160,065	4,025,764
NET ASSETS, end of year	$ 3,943,771	214,106	17,000	4,174,877	4,160,065

See notes to financial statements

Hope Center for Kids, Inc.

Statement of Cash Flows
For the Year Ended December 31, 2016, with Comparative Totals for 2015

		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	$	14,812	134,301
Adjustments to reconcile change in net assets to net cash provided by operating activities -			
Depreciation and amortization		188,450	188,477
Gain from receipt of insurance proceeds		(64,315)	--
(Increase) decrease in assets -			
Receivables -			
Pledges		(17,978)	78,512
Other		--	1,415
Prepaid expenses		(329)	(6,798)
Increase (decrease) in liabilities -			
Accounts payable - trade		(4,452)	10,765
Accrued salaries, wages and payroll taxes payable		13,660	5,501
Accrued vested benefits		748	(5,587)
Tenant rent deposit		500	--
Net cash provided by operating activities		131,096	406,586
CASH FLOWS FROM INVESTING ACTIVITIES:			
Insurance proceeds received		64,315	--
Purchase of property and equipment		(15,851)	(50,326)
Withdrawals from (deposits to) assets limited as to use		142,695	(122,288)
Net cash provided by (used in) investing activities		191,159	(172,614)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt refinancing		788,048	--
Payments on long-term debt and capital lease obligation		(878,262)	(90,993)
Net cash used in financing activities		(90,214)	(90,993)
NET INCREASE IN CASH AND CASH EQUIVALENTS		232,041	142,979
CASH AND CASH EQUIVALENTS, beginning of year		601,907	458,928
CASH AND CASH EQUIVALENTS, end of year	$	833,948	601,907
SUPPLEMENTAL SCHEDULE OF CASH FLOWS INFORMATION:			
Cash paid for interest	$	36,677	40,219
Forgiveness of debt obligation	$	2,668	--

See notes to financial statements

(1) Description of Organization

Hope Center for Kids, Inc. (the Organization) was incorporated as a nonprofit entity on December 3, 1999 in the State of Nebraska. The mission of the Organization is to faithfully inspire hope in North Omaha and Fremont youth and children through education, employability, collaboration and faith.

(2) Summary of Significant Accounting Policies

These policies are in accordance with the accounting principles generally accepted in the United States of America (GAAP).

A. Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

B. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statement of cash flows includes investments in highly liquid debt instruments with original maturities of three months or less.

The Organization periodically maintains deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes the risk relating to these excess deposits is minimal.

C. Pledges Receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. Fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed. There were no pledge discounts or allowances for uncollectible pledges as of December 31, 2016 or 2015.

D. Assets Limited as to Use

Assets limited as to use include assets restricted as to use by donors. These assets consist of cash and cash equivalents.

E. Property and Equipment, Net

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. The Organization maintains a capitalization policy of all items over $2,500 with a useful life of more than one year.

The useful lives of property and equipment for purposes of computing depreciation are:

Land improvements	15 years
Building and improvements	7-39 years
Furniture and equipment	3-15 years
Computer equipment	3-5 years

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

F. Net Assets

The Organization maintains the following classes of net assets:

Unrestricted – Represents net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted – Represents net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted – Represents net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all of the interest and dividends earned in related investments for general or specific purposes.

G. *Endowments*

The Organization's endowments consist of funds established to invest permanently restricted donations. 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. As of December 31, 2016 and 2015, the Organization had no board designated endowments.

The Board of Directors of the Organization has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) as not requiring the preservation of any specific amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization only classifies as permanently restricted assets the amounts in the endowments which are subject to permanent, specific, donor-imposed restrictions on appropriation (spending) of the fund.

The Organization classifies the remaining amounts in the endowments as temporarily restricted net assets until those amounts are appropriated for expenditure. In authorizing appropriations form the temporarily restricted endowments, NUPMIFA requires the Organization to focus on the purposes of the fund, giving priority to the donor's intent that the fund be maintained permanently.

In accordance with NUPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

H. Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received or given. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

I. Contributed Services and Gifts-in-Kind

Unpaid volunteers are active in providing valuable services to numerous programs. The value of those contributions of time is not recognized as revenue in the statement of activities since it does not meet the recognition requirements of Financial Accounting Standards Board (FASB) ASC Topic 958 Subtopic 605, *Revenue Recognition*.

Gifts-in-kind are recorded as revenue at their estimated fair value on the date of receipt. The Organization received donated materials of $107,577 and $56,964, respectively, and donated rent of $18,000 and $1,500, respectively, which are included in the statement of activities for the years ending December 31, 2016 and 2015.

J. Functional Allocation of Expenses

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

K. Advertising

Advertising costs are expensed as incurred. Advertising costs were $18,342 and $46,292, respectively, for the years ending December 31, 2016 and 2015.

L. Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has received a determination letter that it is exempt from federal income taxes on related income pursuant to the Section 501(a) of the Code. The Internal Revenue Service has established standards to be met to maintain the Organization's tax exempt status. In general, such standards require the Organization to meet a community benefits standard and comply with various laws and regulations.

The Organization accounts for uncertainties in accounting for income tax assets and liabilities using guidance included in FASB ASC 740, *Income Taxes*. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. At December 31, 2016 and 2015, the Organization had no uncertain tax positions accrued.

M. Comparative Amounts

The amounts shown for 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016, and are not intended to present all information necessary for a fair presentation of the 2015 financial statements in conformity with accounting principles generally accepted in the United States of America.

N. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources—and the changes in those resources—to donors, grantors, creditors, and other financial statement users. This ASU will be effective for the Organization for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the effect that the standard will have on the financial statements.

O. Subsequent Events

The Organization considered events occurring through March 15, 2017 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(3) Pledges Receivable

Included in pledges receivable are the following unconditional promises to give at December 31, 2016 and 2015:

		2016	2015
Restricted:			
Hope Employment & Learning Academy	$	38,142	54,112
Kids Café		11,050	11,250
Fremont Hope Center		55,000	12,500
Restricted to future periods		12,000	19,025
Other		2,165	3,492
Pledges receivable	$	118,357	100,379

Pledges receivable at December 31, 2016 are expected to be received in within one year.

(4) Property and Equipment, Net

The components of property and equipment at December 31, 2016 and 2015 are as follows:

		2016	2015
Land	$	204,773	204,773
Land improvements		84,579	84,579
Building and improvements		5,050,257	5,027,352
Furniture and equipment		444,016	438,875
Computer equipment		106,781	113,064
		5,890,406	5,868,643
Less: Accumulated depreciation and amortization		(1,904,642)	(1,720,067)
	$	3,985,764	4,148,576

Depreciation and amortization expense of $188,450 and $188,477 is included in the accompanying statement of activities for the years ending December 31, 2016 and 2015, respectively.

(5) Long-term Debt and Capital Lease Obligation

A summary of long-term debt and capital lease obligations at December 31, 2016 and 2015 is as follows:

		2016	2015
Note payable to Mutual of Omaha Bank, 4.54%, due December 2021.	$	788,148	--
Note payable to Mutual of Omaha Bank, 4.1%, due February 2018. This note payable was refinanced during 2016.		--	877,870
Capital lease obligation, 4.1% imputed interest, due through April 2018, secured by leased copier. The obligation of $2,668 was forgiven during 2016.		--	3,160
	$	788,148	881,030

Interest expense of $36,677 and $40,219 is included in the accompanying statement of activities for the years ending December 31, 2016 and 2015, respectively.

In 2016, the Organization refinanced a note with Mutual of Omaha Bank into a new note with principal of $788,148 and a fixed interest rate of 4.54%. This note is due in four annual principal payments of $87,787, beginning March 2017, with a final balloon payment in December 2021. Interest is paid quarterly. This loan is collateralized by deeds of trust on the buildings.

Scheduled principal payments on long-term debt are as follows:

Year Ending December 31		Note Payable
2017	$	87,787
2018		87,787
2019		87,787
2020		87,787
2021		437,000
	$	788,148

Property and equipment, net, includes $0 and $2,827 in property held under capital leases at December 31, 2016 and 2015, respectively.

(6) Line of Credit

The Organization has a line of credit (LOC) with a financial institution to support operating needs. The LOC has an advance limitation of $150,000 and interest on the LOC is .25% above Prime Rate. The Organization did not draw on the LOC during 2016 or 2015. At December 31, 2016 and 2015, there were no outstanding balances under the LOC.

(7) Retirement Plan

All employees of the Organization are eligible to participate in a SIMPLE retirement plan. Currently, the Organization will match up to 3% of contributions made by the employee through payroll deductions. The Organization contributed $11,528 and $10,081 in 2016 and 2015, respectively. There were no direct administrative costs.

(8) Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets related to the following at December 31, 2016 and 2015:

	2016	2015
Future operations	$ 118,242	103,859
Employment academy	61,420	172,381
Scholarships	29,690	21,030
Hope Skate	2,359	--
Pageant	1,967	1,967
Emergency services	428	428
Fremont Hope Center	--	33,122
Clothing, totes, and gifts	--	7,586
	$ 214,106	340,373

Net assets were released from donor restrictions during 2016 and 2015 by incurring expenses satisfying the restricted purposed as follows:

	2016	2015
Employment academy	$ 172,981	150,771
Fremont Hope Center	45,622	25,000
Future operations	19,025	63,688
Scholarships	11,400	11,126
Kids Café	11,250	12,500
Clothing, totes, and gifts	7,586	9,843
Other program expenses	6,427	10,694
	$ 274,291	283,622

Permanently Restricted Net Assets

The Organization was the recipient of an endowment of $17,000 as contributed by a donor during 2013. The provisions require that the principal of the gift be maintained in perpetuity and that the investment income be used to support the operations of the Organization. During the year ending December 31, 2016, there were no distributions from the endowment fund.

(9) Operating Leases

The Organization has various leases for operating equipment. Total rental expense for the years ended December 31, 2016 and 2015 for all operating leases was $27,939 and $20,452, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2016, that have initial or remaining lease terms in excess of one year:

2017	$	12,540
2018		12,540
2019		5,225

(10) Related Party

The Organization has a loan with Mutual of Omaha Bank (see Note 5). Michael Homa, Nebraska State President of Mutual of Omaha Bank, is a member of the Organization's Board of Directors.

(11) Subsequent Event

During 2016, the Organization received insurance proceeds of $64,315 related to floor damage at Hope Skate. The floor was replaced in 2017 at a cost of approximately $63,000.

Hope Center for Kids, Inc.

Exhibit 1

Statement of Functional Expenses
For the Year Ended December 31, 2016

		Program Services							
		Omaha Learning Programs	Kids Café	Skating Rink	Fremont Hope Center	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and related costs	$	788,672	53,672	53,672	254,406	1,150,422	166,921	63,870	1,381,213
Children/youth expenses		120,861	32,830	3,625	83,660	240,976	148	--	241,124
Postage and delivery		492	--	--	90	582	5,078	166	5,826
Repair and maintenance		44,223	1,559	10,349	6,886	63,017	175	147	63,339
Advertising		4,997	--	--	1,034	6,031	12,311	--	18,342
Printing and reproduction		17,299	--	896	2,428	20,623	20,947	56	41,626
Professional fees		23,765	--	--	1,510	25,275	20,994	44,150	90,419
Interest		36,677	--	--	--	36,677	--	--	36,677
Insurance		22,359	860	15,044	4,316	42,579	2,835	6,813	52,227
Utilities		38,630	--	28,737	7,717	75,084	--	--	75,084
Other operating expenses		131,147	3,315	4,226	31,079	169,767	32,082	7,744	209,593
Total expenses before depreciation and amortization		1,229,122	92,236	116,549	393,126	1,831,033	261,491	122,946	2,215,470
Depreciation and amortization expense		117,917	--	65,184	5,349	188,450	--	--	188,450
Total expenses	$	1,347,039	92,236	181,733	398,475	2,019,483	261,491	122,946	2,403,920