

HOPE CENTER FOR KIDS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018
(WITH INDEPENDENT AUDITOR'S REPORT)

HOPE CENTER FOR KIDS, INC.

TABLE OF CONTENTS

DECEMBER 31, 2019 AND 2018

	<u>Page</u>
Independent Auditor's Report	1 - 2
<u>Financial Statements</u>	
Statements of Financial Position as of December 31, 2019 and 2018	3
Statements of Activities for the years ended December 31, 2019 and 2018	4
Statements of Functional Expenses for the years ended December 31, 2019 and 2018	5 - 6
Statements of Cash Flows for the years ended December 31, 2019 and 2018	7
Notes to Financial Statements	8 - 15

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hope Center for Kids, Inc.
Omaha, Nebraska

We have audited the accompanying financial statements of Hope Center for Kids, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2019 and 2018, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Center for Kids, Inc. as of December 31, 2019 and 2018, and the changes 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.

FRANKEL ZACHARIA LLC

July 8, 2020

HOPE CENTER FOR KIDS, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31	2019	2018
ASSETS		
Cash	\$ 485,328	679,488
Pledges receivable	71,217	131,653
Prepaid expenses	22,210	28,676
Property and equipment, net	3,623,593	3,791,424
TOTAL ASSETS	\$ 4,202,348	4,631,241
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 18,814	37,011
Accrued salaries, wages, and payroll taxes payable	10,862	60,654
Accrued vested benefits	14,107	10,069
Note payable	417,840	512,438
Total liabilities	461,623	620,172
Net assets		
Without donor restrictions	3,612,924	3,812,125
With donor restrictions	127,801	198,944
Total net assets	3,740,725	4,011,069
TOTAL LIABILITIES AND NET ASSETS	\$ 4,202,348	4,631,241

HOPE CENTER FOR KIDS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support						
Contributions	\$ 1,671,892	105,689	1,777,581	1,543,620	168,216	1,711,836
Special events income (net of direct expenses of \$122,192 and \$102,876 in 2019 and 2018, respectively)	347,568	---	347,568	361,960	---	361,960
Other income	29,769	---	29,769	34,791	---	34,791
Insurance proceeds	73,457	---	73,457	---	---	---
Total revenues, gains and other support	2,122,686	105,689	2,228,375	1,940,371	168,216	2,108,587
Net assets released from restrictions	176,832	(176,832)	---	248,653	(248,653)	---
Expenses						
Program services						
Omaha	1,381,725	---	1,381,725	1,485,614	---	1,485,614
Hope Skate	159,767	---	159,767	136,678	---	136,678
Fremont	382,642	---	382,642	405,288	---	405,288
Holy Name	23,642	---	23,642	9,641	---	9,641
Total program services	1,947,776	---	1,947,776	2,037,221	---	2,037,221
Supporting services						
Management and general	210,393	---	210,393	204,274	---	204,274
Fundraising	340,550	---	340,550	274,641	---	274,641
Total expenses	2,498,719	---	2,498,719	2,516,136	---	2,516,136
DECREASE IN NET ASSETS	(199,201)	(71,143)	(270,344)	(327,112)	(80,437)	(407,549)
Net assets at beginning of year	3,812,125	198,944	4,011,069	4,139,237	279,381	4,418,618
NET ASSETS AT END OF YEAR	\$ 3,612,924	127,801	3,740,725	3,812,125	198,944	4,011,069

See accompanying notes to financial statements.

HOPE CENTER FOR KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services				Total Program Services	Management and General	Fundraising	Total Functional Expenses
	Omaha	Hope Skate	Fremont	Holy Name				
Salaries, wages, and related costs	\$ 864,609	45,488	262,084	19,708	1,191,889	110,250	207,498	1,509,637
Children/youth expenses	184,816	---	44,226	981	230,023	---	---	230,023
Postage and delivery	56	---	81	---	137	1	3,439	3,577
Repair and maintenance	58,372	11,698	5,920	---	75,990	461	325	76,776
Advertising	282	---	55	---	337	23	15,840	16,200
Printing and reproduction	4,572	973	2,677	---	8,222	710	39,365	48,297
Professional fees	14,675	---	825	---	15,500	51,577	36,575	103,652
Interest	23,379	---	---	---	23,379	---	---	23,379
Insurance	31,683	5,965	8,673	2,333	48,654	7,327	6,317	62,298
Utilities	30,611	26,938	10,996	---	68,545	6,087	---	74,632
Other operating expenses	63,693	1,162	41,742	620	107,217	33,957	31,191	172,365
Total expenses before depreciation	1,276,748	92,224	377,279	23,642	1,769,893	210,393	340,550	2,320,836
Depreciation	104,977	67,543	5,363	---	177,883	---	---	177,883
Total expenses	\$ 1,381,725	159,767	382,642	23,642	1,947,776	210,393	340,550	2,498,719

See accompanying notes to financial statements.

HOPE CENTER FOR KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services				Total Program Services	Management and General	Fundraising	Total Functional Expenses
	Omaha	Hope Skate	Fremont	Holy Name				
Salaries, wages, and related costs	\$ 983,748	29,967	260,524	6,396	1,280,635	101,783	151,804	1,534,222
Children/youth expenses	171,247	136	79,343	486	251,212	---	50	251,262
Postage and delivery	7	---	102	---	109	259	7,971	8,339
Repair and maintenance	51,720	4,803	4,563	601	61,687	---	13	61,700
Advertising	320	---	---	---	320	1,729	6,362	8,411
Printing and reproduction	8,151	1,040	5,451	---	14,642	656	49,067	64,365
Professional fees	4,731	---	75	---	4,806	58,077	28,274	91,157
Interest	29,787	---	---	---	29,787	---	---	29,787
Insurance	31,515	5,489	8,346	2,064	47,414	6,792	5,434	59,640
Utilities	39,791	24,070	9,921	---	73,782	2,048	2,048	77,878
Other operating expenses	55,822	2,995	31,350	94	90,261	32,930	23,618	146,809
Total expenses before depreciation	1,376,839	68,500	399,675	9,641	1,854,655	204,274	274,641	2,333,570
Depreciation	108,775	68,178	5,613	---	182,566	---	---	182,566
Total expenses	\$ 1,485,614	136,678	405,288	9,641	2,037,221	204,274	274,641	2,516,136

See accompanying notes to financial statements.

HOPE CENTER FOR KIDS, INC.**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (343,801)	(407,549)
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	177,883	182,566
(Increase) decrease in operating assets		
Pledges receivable	60,436	34,298
Prepaid expenses	6,466	(9,379)
Increase (decrease) in operating liabilities		
Accounts payable	(18,197)	6,044
Accrued salaries, wages and payroll taxes payable	(49,792)	5,108
Accrued vested benefits	4,038	(3,096)
Net cash used by operating activities	(162,967)	(192,008)
Cash flows from investing activities		
Purchase of property and equipment	(10,052)	(40,456)
Withdrawals from assets limited as to use	---	113,430
Insurance proceeds	73,457	---
Net cash provided by investing activities	63,405	72,974
Cash flows from financing activities		
Payments on note payable	(94,598)	(187,923)
NET DECREASE IN CASH	(194,160)	(306,957)
Cash at beginning of year	679,488	986,445
Cash at end of year	\$ 485,328	679,488
Supplemental disclosures of cash flow information:		
Interest paid	\$ 23,379	29,787

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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 youth and children through education, employability, collaboration and faith at its three locations in North Omaha, Fremont and Holy Name.

1. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

A. Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Estimates and assumptions affect the reported amounts of assets and liabilities, revenues, expenses and related disclosures. Because of the inherent uncertainties in this process, it is likely that actual results will vary from the estimates.

B. 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, 2019 or 2018.

C. Property and Equipment, Net

Property and equipment are reported at cost or the fair value of donated items at the time of donation. Deprecation is computed using the straight-line method over estimated useful lives. The Organization maintains a capitalization policy of all items over \$2,500 with a useful life of more than one year.

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

1. Summary of Significant Accounting Policies – Continued

C. Property and Equipment, Net - Continued

The useful lives of property and equipment are:

Land improvements	16 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.

D. Net Assets

The Organization maintains the following classes of net assets:

Net Assets without Donor Restrictions – Represents those assets not limited by donor-imposed stipulations and are, therefore, available for general operations.

Net Assets with Donor Restrictions – Represents those assets that are restricted by donors specifically for certain time periods, purposes, or programs, or assets that must be maintained in perpetuity by the Organization as required by the donor. Generally, the donors of assets that must be maintained in perpetuity permit the Organization to use all of the interest and dividends earned in related investments for general or specific purposes as determined by the Organization.

E. 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. Gifts are reported as with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 net assets without donor restrictions in the accompanying financial statements.

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

1. Summary of Significant Accounting Policies – Continued

F. Contributed Services and Gifts-In-Kind

Unpaid volunteers are active in providing valuable services to numerous programs. The value of such services is not reported, as these services do not require specialized skills.

Gifts-in-kind are recorded as revenue at their estimated fair value on the date of receipt. The Organization received gifts which are recorded in the statement of activities for the years ending December 31, 2019 and 2018, of donated materials of \$118,300 and \$34,700 respectively, donated securities of \$35,900 and \$10,100 respectively, and donated rent in Fremont of \$22,750 and \$18,750 respectively.

G. 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 in the statement of functional expenses. Most expenses can be directly allocated to one of the programs or support functions. Expenses attributable to more than one program or supporting function are allocated on a reasonable basis that is consistently applied. Salaries, wages, and related costs are allocated based on quarterly time studies. Insurance is allocated based on salaries, wages, and related costs (workers compensation) or building square footage (all other). Utilities are allocated based on building square footage.

H. Advertising

Advertising costs are expensed as incurred. Advertising costs were \$16,200 and \$6,362 respectively, for the years ending December 31, 2019 and 2018.

I. 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 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 from 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 being sustained. At December 31, 2019 and 2018, the Organization has no uncertain tax positions accrued.

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

1. Summary of Significant Accounting Policies – Continued

J. Subsequent Events

Management evaluated transactions and events occurring subsequent to December 31, 2019, and through July 8, 2020, the date the financial statements were available to be issued, to determine whether any events should be recognized or disclosed in these statements. There were no transactions or events in the subsequent period requiring disclosure or recognition in the statements except as disclosed in Note 10

2. Liquidity and Availability of Resources

Financial assets available for general expenditures within one year of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 485,328	679,488
Pledges receivable	71,217	131,653
Total financial assets at December 31	<u>556,545</u>	<u>811,141</u>
Less: amounts with donor restrictions for specific purpose	(76,821)	(171,465)
Less: amounts to be held in perpetuity	<u>(17,000)</u>	<u>(17,000)</u>
Total available for general expenditures within one year	<u>\$ 462,724</u>	<u>622,676</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a line of credit with an advance limitation of \$150,000, which it could draw upon.

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

3. Property and Equipment

The components of property and equipment at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 204,773	204,773
Land improvements	84,579	84,579
Building and improvements	5,066,770	5,066,770
Furniture and equipment	566,925	566,925
Computer equipment	149,361	139,309
	<u>6,072,408</u>	<u>6,062,356</u>
Less: Accumulated depreciation and amortization	<u>(2,448,815)</u>	<u>(2,270,932)</u>
	<u>\$ 3,623,593</u>	<u>3,791,424</u>

Depreciation and amortization expense of \$177,883 and \$182,56566 is included in the accompanying statement of activities for the years ending December 31, 2019 and 2018.

4. Note Payable

The Organization has a note payable to a financial institution that is due in four annual principal payments of \$87,787 that began in 2017, with a final balloon payment in December 2021. Interest at 4.54% is paid quarterly. The note is secured by a deed of trust on the building and all business assets. Interest expense of \$23,379 and \$29,787 is included in the accompanying statement of activities for the years ending December 31, 2019 and 2018, respectively. The agreement includes a minimum liquidity covenant. The Organization was in compliance with the requirement at December 31, 2019.

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

2020	\$ 87,787
2021	<u>330,053</u>
	<u>\$ 417,840</u>

5. 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 0.25% above the Prime Rate for the United States as published in the Wall Street Journal but never less than 5%. The rate on the line at December 31, 2019 was 5.00%. The Organization did not draw on the LOC during 2019 or 2018. At December 31, 2019 and 2018, there were no outstanding balances on the LOC.

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

6. 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 employee contributions. The Organization contributed \$21,494 and \$18,988 in 2019 and 2018 respectively.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purpose or period as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specific purpose:		
Employment academy	\$ 3,978	4,016
Scholarships	19,910	24,660
Hope Skate	--	2,359
Pageant	1,967	1,967
Emergency services	12,729	--
Clothing, totes, and gifts	--	1,931
Other	1,000	--
Holy Name	--	15,358
	<u>39,584</u>	<u>50,291</u>
Subject to passage of time:		
Future operations	71,217	131,653
Perpetual in nature:		
Endowment	<u>17,000</u>	<u>17,000</u>
Total net assets with donor restrictions	<u>\$ 127,801</u>	<u>198,944</u>

Net assets were released from donor restrictions during 2019 and 2018 by incurring expenses satisfying the restricted purposes as follows:

	<u>2019</u>	<u>2018</u>
Employment academy	\$ 7,038	19,764
Fremont Hope Center	58,161	62,142
Future operations	57,729	103,914
Scholarships	4,750	9,030
Kids Café	9,682	11,400
Clothing, totes, and gifts	1,931	13,198
Holy Name	15,733	9,642
VBA	6,081	19,563
Other program expenses	15,727	--
	<u>\$ 176,832</u>	<u>248,653</u>

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

7. Net Assets with Donor Restrictions - Continued

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. There were no distributions from the endowment fund during the years ending December 31, 2019 and 2018.

8. Operating Lease

The Organization has leases for operating equipment and office space. Total rental expense for the years ended December 31, 2019 and 2018 was \$35,088 and \$33,040, respectively. The following is a schedule of future minimum lease payments required for leases with initial or remaining lease terms in excess of one year.

2020	\$	6,550
2021		4,800
2022		<u>1,200</u>
	\$	<u>12,550</u>

9. Concentration

It is not uncommon for activities to be concentrated in a relatively small number of grantors and donors. Accordingly, at December 31, 2019, 52% of pledges receivable is from two grantors.

The Organization periodically maintains deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

10. Subsequent Events

In January 2020, management and the Board of Directors decided to close the Fremont location. The facility lease was terminated without cost and supplies were transferred to the Omaha location. Leasehold improvements of approximately \$49,000 were written off.

As a result of the ongoing outbreak of the coronavirus disease (COVID-19) which was declared a pandemic by the World Health Organization in March 2020, economic and operating uncertainties have arisen, which may negatively impact the Organization, and has caused the Organization to temporarily close the Omaha and Holy Name facilities, and furlough some employees. The ultimate financial impact of such cannot be reasonably estimated at this time.

HOPE CENTER FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

10. Subsequent Events - Continued

In April 2020, the Organization applied for and received a U.S. Small Business Administration loan in the amount of \$296,000 under the Payroll Protection Program (PPP) of the Coronavirus Aid Relief and Economic Security (CARES) Act. This loan accrues interest at 1%, requires monthly interest payments starting seven months after issuance, and matures two years after issuance. Under the PPP, up to 100% of the loan may be forgiven if certain conditions are satisfied. Management expects forgiveness of a significant portion of the loan amount.

11. Adoption of New Accounting Standard

During the year, the Organization adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions, and if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. Results for reporting the year ending December 31, 2019 are presented under FASB ASC Topic 958. The comparative information continues to be reported under the accounting standards in effect for those reporting periods. There was no impact to the financial statements as a result of adoption.