HOPEKIDS, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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CliftonLarsonAllen LLP
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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, 2016 and 2015, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HopeKids, Inc. as of December 31, 2016 and 2015, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
May 8, 2017

HOPEKIDS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,135,174	$ 1,112,176
Investments	10,350	729,830
Contributions Receivable	28,406	8,048
Accrued Interest Receivable	-	10,917
Prepaid Expenses and Other Assets	40,309	8,690
Total Current Assets	2,214,239	1,869,661
PROPERTY AND EQUIPMENT, Net	10,065	16,408
Total Assets	$ 2,224,304	$ 1,886,069
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Other Liabilities	$ 18,618	$ 14,622
NET ASSETS		
Unrestricted	1,976,576	1,472,682
Temporarily Restricted	229,110	398,765
Total Net Assets	2,205,686	1,871,447
Total Liabilities and Net Assets	$ 2,224,304	$ 1,886,069

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions	$ 1,744,904	$ 24,500	$ 1,769,404
Contributed Goods and Services	1,689,433	-	1,689,433
Investment Income	220,938	-	220,938
Other	17,770	-	17,770
Net Assets Released from Restrictions	194,155	(194,155)	-
Total Support and Revenues	3,867,200	(169,655)	3,697,545
EXPENSES			
Program Services	2,846,041	-	2,846,041
Management and General	138,467	-	138,467
Fundraising	378,798	-	378,798
Total Expenses	3,363,306	-	3,363,306
CHANGE IN NET ASSETS	503,894	(169,655)	334,239
Net Assets - Beginning of Year	1,472,682	398,765	1,871,447
NET ASSETS - END OF YEAR	$ 1,976,576	$ 229,110	$ 2,205,686

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions	$ 1,567,301	$ 398,765	$ 1,966,066
Contributed Goods and Services	1,479,423	-	1,479,423
Investment Loss	(152,314)	-	(152,314)
Other	14,534	-	14,534
Total Support and Revenues	2,908,944	398,765	3,307,709
EXPENSES			
Program Services	2,283,037	-	2,283,037
Management and General	170,705	-	170,705
Fundraising	256,292	-	256,292
Total Expenses	2,710,034	-	2,710,034
CHANGE IN NET ASSETS	198,910	398,765	597,675
Net Assets - Beginning of Year	1,273,772	-	1,273,772
NET ASSETS - END OF YEAR	$ 1,472,682	$ 398,765	$ 1,871,447

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
EXPENSES					
Salaries	$ 536,630	$ 70,743	$ 154,133	$ 224,876	$ 761,506
Payroll Taxes and Fringe Benefits	118,596	15,634	34,063	49,697	168,293
HopeDay Program	2,024,742	-	-	-	2,024,742
Office	24,326	9,306	6,987	16,293	40,619
Outside Services	78,497	12,807	9,793	22,600	101,097
Fundraising	-	-	155,656	155,656	155,656
Occupancy	5,167	681	1,484	2,165	7,332
Insurance	16,546	2,181	4,752	6,933	23,479
Travel	15,801	2,083	4,538	6,621	22,422
Depreciation	8,001	1,055	2,298	3,353	11,354
Miscellaneous	17,735	23,977	5,094	29,071	46,806
Total Expenses	$ 2,846,041	$ 138,467	$ 378,798	$ 517,265	$ 3,363,306

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total Functional Expenses
EXPENSES					
Salaries	$ 442,572	$ 93,501	$ 87,268	$ 180,769	$ 623,341
Payroll Taxes and Fringe Benefits	76,468	16,155	15,078	31,233	107,701
HopeDay Program	1,582,871	-	-	-	1,582,871
Office	22,664	9,735	4,469	14,204	36,868
Outside Services	77,397	15,882	5,449	21,331	98,728
Fundraising	-	-	128,043	128,043	128,043
Occupancy	5,429	1,147	1,070	2,217	7,646
Insurance	16,166	3,415	3,188	6,603	22,769
Travel	16,540	3,494	3,261	6,755	23,295
Depreciation	9,617	2,032	1,896	3,928	13,545
Miscellaneous	33,313	25,344	6,570	31,914	65,227
Total Expenses	$ 2,283,037	$ 170,705	$ 256,292	$ 426,997	$ 2,710,034

See accompanying Notes to Financial Statements.

HOPEKIDS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 334,239	$ 597,675
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	11,354	13,545
Net Realized and Unrealized (Gains) Losses on Investments	(194,640)	176,284
Increase (Decrease) in Cash Resulting from Changes in:		
Contributions Receivable	(20,358)	4,454
Accrued Interest Receivable	10,917	(10,917)
Prepaid Expenses and Other Assets	(31,619)	(42)
Accounts Payable and Other Liabilities	3,996	(864)
Net Cash Provided by Operating Activities	113,889	780,135
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(5,011)	(5,429)
Purchase of Investments	(160,517)	(906,114)
Proceeds from Sales of Investments	1,074,637	-
Net Cash Provided (Used) by Investing Activities	909,109	(911,543)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,022,998	(131,408)
Cash and Cash Equivalents - Beginning of Year	1,112,176	1,243,584
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,135,174	$ 1,112,176

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

HopeKids, Inc. (Organization) is an Arizona not-for-profit 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 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). Under the Guidance, the Organization is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor imposed stipulations and are available at the discretion of the Board for use in the Organization's operations.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which are subject to donor-imposed stipulations that may or will be met by the actions of the Organization and/or the passage of time. At December 31, 2016 and 2015, the Organization had $229,110 and $398,765 temporarily restricted net assets, respectively.

Permanently Restricted Net Assets

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the endowment agreements. At December 31, 2016 and 2015, the Organization had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted explicitly by donor stipulation or by law. Expirations of temporary restrictions on net assets, 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 unrestricted net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016 and 2015 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 and 2015.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished or a donor removes a restriction), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets 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 for the years ended December 31, 2016 and 2015 follows:

	2016	2015
Program Events	$ 1,661,562	$ 1,425,392
Professional IT Services for the Program	19,800	27,562
Marketing	-	23,500
Fundraising Costs	-	951
Internet Services	8,071	2,018
Total	$ 1,689,433	$ 1,479,423

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are allocated based on time spent on the activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market Value Risk

The Organization invests in a variety of corporate bonds and stocks. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect investment balances and the amounts reported in the statements of financial position.

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 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 (IRS) not to be a private foundation within the meaning of Section 509(a) of the Code.

Management believes that no uncertain tax positions exist for the Organization at December 31, 2016 and 2015.

NOTE 2 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, 2016 and 2015 include stocks and bonds that are considered Level 1 investments.

Total investment income, gains, and losses for the years ended December 31, 2016 and 2015 consist of the following:

	2016	2015
Interest and Dividend Income	$ 26,448	$ 24,120
Realized and Unrealized Gains (Losses), Net	194,640	(176,284)
Less Investment Expenses	(150)	(150)
Investment Income (Loss), Net	$ 220,938	$ (152,314)

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Software	$ 89,880	$ 89,880
Office Equipment	19,581	14,571
Total	109,461	104,451
Less Accumulated Depreciation and Amortization	(99,396)	(88,043)
Property and Equipment, Net	$ 10,065	$ 16,408

Depreciation and amortization expense was $11,354 and $13,545 for the years ended December 31, 2016 and 2015, respectively.

NOTE 4 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 $19,800 and $27,562 for the years ended December 31, 2016 and 2015, respectively.

The Organization also received donated services from unpaid volunteers at HopeDay program of events throughout the years ended December 31, 2016 and 2015. No amounts have been recognized in the statements of activities and change in net assets because the criteria for recognition have not been satisfied.

NOTE 5 RELATED PARTY TRANSACTION

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

NOTE 6 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, 2016 and 2015, a significant portion of the cash balance was in excess of the FDIC insurance coverage limit.

For the year ended December 31, 2015, one donor accounted for 20% of total contributions. There was no concentration of revenue for the year ended December 31, 2016.

NOTE 7 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 his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were $24,426 and $-0- for fiscal years 2016 and 2015, respectively.

NOTE 8 SUBSEQUENT EVENTS

The Organization will be opening a new chapter in Kansas City during 2017.

On February 17, 2017, the Organization entered into an agreement with Talking Stick Resort Arena for three years beginning on July 1, 2017. This agreement commits the Organization to pay out $76,125 in 2017, $154,534 in 2018, $159,170 in 2019, and $80,761 in 2020 for the purchase of a private suite. This contract will be used for program participants to go to see basketball games, concerts and shows throughout the year.

Management evaluated subsequent events through May 8, 2017, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2016, but prior to May 8, 2017 that provided additional evidence about conditions that existed at December 31, 2016, have been recognized in the financial statements for the year ended December 31, 2016. Events or transactions that provided evidence about conditions that did not exist at December 31, 2016, 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, 2016.