

KICKSTART KIDS

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2023 and 2022

KICKSTART KIDS

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Independent Auditors' Report

To the Board of Directors of
KICKSTART KIDS:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KICKSTART KIDS, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KICKSTART KIDS as of June 30, 2023 and 2022, and the changes 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

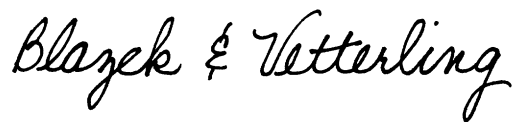
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance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

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

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

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

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

A handwritten signature in black ink, reading "Blazek & Vetterling". The script is cursive and fluid, with the ampersand clearly visible.

November 21, 2023

KICKSTART KIDS

Statements of Financial Position as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 4,123,258	\$ 2,875,574
Contributions receivable	240,140	218,961
Prepaid expenses and other assets	140,560	128,474
Property, net <i>(Note 4)</i>	<u>208,635</u>	<u>199,582</u>
TOTAL ASSETS	<u>\$ 4,712,593</u>	<u>\$ 3,422,591</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 65,818	\$ 71,236
Deferred revenue – service contract and program fees	<u>-</u>	<u>2,898</u>
Total liabilities	<u>65,818</u>	<u>74,134</u>
Net assets:		
Without donor restrictions <i>(Note 2)</i>	4,252,009	2,812,396
With donor restrictions <i>(Note 5)</i>	<u>394,766</u>	<u>536,061</u>
Total net assets	<u>4,646,775</u>	<u>3,348,457</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,712,593</u>	<u>\$ 3,422,591</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Activities for the year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Service contract fees <i>(Note 7)</i>	\$ 4,146,500	\$ -	\$ 4,146,500
Government grants	-	1,818,538	1,818,538
Contributions:			
Cash	345,791	390,572	736,363
Nonfinancial assets <i>(Note 6)</i>	491,685	-	491,685
Fundraising events:			
Cash	1,000,284	-	1,000,284
Nonfinancial assets <i>(Note 6)</i>	107,080	-	107,080
Cost of direct benefits provided to donors	(287,126)	-	(287,126)
Cost of sales related to fundraising events	(137,882)	-	(137,882)
Program and tournament fees	686,092	-	686,092
Other income	<u>71,114</u>	<u>-</u>	<u>71,114</u>
Total revenue	6,423,538	2,209,110	8,632,648
Net assets released from restrictions:			
Satisfaction of program restrictions	2,252,905	(2,252,905)	-
Release of time restriction	<u>97,500</u>	<u>(97,500)</u>	<u>-</u>
Total	<u>8,773,943</u>	<u>(141,295)</u>	<u>8,632,648</u>
EXPENSES:			
Program services – karate instruction	5,769,707	-	5,769,707
Management and general	938,653	-	938,653
Fundraising	<u>625,970</u>	<u>-</u>	<u>625,970</u>
Total expenses	<u>7,334,330</u>	<u>-</u>	<u>7,334,330</u>
CHANGES IN NET ASSETS	1,439,613	(141,295)	1,298,318
Net assets, beginning of year	<u>2,812,396</u>	<u>536,061</u>	<u>3,348,457</u>
Net assets, end of year	<u>\$ 4,252,009</u>	<u>\$ 394,766</u>	<u>\$ 4,646,775</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Activities for the year ended June 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Service contract fees (<i>Note 7</i>)	\$ 3,930,500	\$ -	\$ 3,930,500
Contributions:			
Cash	242,033	534,397	776,430
Nonfinancial assets (<i>Note 6</i>)	374,698	-	374,698
Fundraising events:			
Cash	875,257	-	875,257
Nonfinancial assets (<i>Note 6</i>)	265,624	-	265,624
Cost of direct benefits provided to donors	(212,961)	-	(212,961)
Cost of sales related to fundraising events	(57,090)	-	(57,090)
Program and tournament fees	533,898	-	533,898
Other income	19,699	-	19,699
Total revenue	5,971,658	534,397	6,506,055
Net assets released from restrictions:			
Satisfaction of program restrictions	594,828	(594,828)	-
Release of time restriction	20,000	(20,000)	-
Total	6,586,486	(80,431)	6,506,055
EXPENSES:			
Program services – karate instruction	5,146,523	-	5,146,523
Management and general	533,648	-	533,648
Fundraising	629,936	-	629,936
Total expenses	6,310,107	-	6,310,107
CHANGES IN NET ASSETS	276,379	(80,431)	195,948
Net assets, beginning of year	2,536,017	616,492	3,152,509
Net assets, end of year	\$ 2,812,396	\$ 536,061	\$ 3,348,457

See accompanying notes to financial statements.

KICKSTART KIDS

Statements of Cash Flows for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,298,318	\$ 195,948
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	55,207	38,497
Changes in operating assets and liabilities:		
Contributions receivable	(21,179)	(15,711)
Prepaid expenses and other assets	(12,086)	31,540
Accounts payable and other liabilities	(5,418)	29,828
Deferred revenue – service contract and program fees	(2,898)	(35,445)
Refundable advance – fundraising events	<u>-</u>	<u>(19,370)</u>
Net cash provided by operating activities	<u>1,311,944</u>	<u>225,287</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(64,260)</u>	<u>(69,996)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,247,684	155,291
Cash and cash equivalents, beginning of year	<u>2,875,574</u>	<u>2,720,283</u>
Cash and cash equivalents, end of year	<u>\$ 4,123,258</u>	<u>\$ 2,875,574</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Functional Expenses for the year ended June 30, 2023

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 4,111,084	\$ 192,350	\$ 219,955	\$ 4,523,389
Employee benefits and payroll related costs	<u>793,428</u>	<u>42,393</u>	<u>33,431</u>	<u>869,252</u>
Total salaries and related expenses	4,904,512	234,743	253,386	5,392,641
Professional services	134,918	634,095	98,369	867,382
Occupancy	112,174	17,249	37,658	167,081
Uniforms	137,279	-	-	137,279
Travel	70,409	414	32,177	103,000
Office expenses and supplies	35,405	24,223	39,758	99,386
Advertising	150	-	97,135	97,285
Insurance	84,892	5,043	250	90,185
Gear	87,443	-	-	87,443
Awards	45,731	-	12,274	58,005
Depreciation and amortization	55,207	-	-	55,207
Meetings and conferences	17,638	4,663	27,642	49,943
Belts	48,371	-	-	48,371
School expenses and supplies	32,653	-	-	32,653
Donations	-	-	25,200	25,200
Other	<u>2,925</u>	<u>18,223</u>	<u>2,121</u>	<u>23,269</u>
Total expenses	<u>\$ 5,769,707</u>	<u>\$ 938,653</u>	<u>\$ 625,970</u>	7,334,330
Cost of direct benefits provided to donors				287,126
Cost of sales related to fundraising events				<u>137,882</u>
Total				<u>\$ 7,759,338</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Functional Expenses for the year ended June 30, 2022

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 3,675,020	\$ 224,028	\$ 259,327	\$ 4,158,375
Employee benefits and payroll related costs	<u>775,169</u>	<u>47,254</u>	<u>54,700</u>	<u>877,123</u>
Total salaries and related expenses	4,450,189	271,282	314,027	5,035,498
Professional services	117,431	178,410	159,462	455,303
Occupancy	97,508	16,501	36,003	150,012
Uniforms	105,903	-	-	105,903
Travel	61,690	1,225	23,405	86,320
Office expenses and supplies	25,600	19,430	34,797	79,827
Insurance	71,048	6,527	4,420	81,995
Gear	50,649	-	-	50,649
Awards	42,068	-	5,335	47,403
Depreciation and amortization	38,497	-	-	38,497
Meetings and conferences	9,872	2,533	22,930	35,335
Belts	46,423	-	-	46,423
School expenses and supplies	26,825	-	-	26,825
Donations	-	-	25,000	25,000
Other	<u>2,820</u>	<u>37,740</u>	<u>4,557</u>	<u>45,117</u>
Total expenses	<u>\$ 5,146,523</u>	<u>\$ 533,648</u>	<u>\$ 629,936</u>	6,310,107
Cost of direct benefits provided to donors				212,961
Cost of sales related to fundraising events				<u>57,090</u>
Total				<u>\$ 6,580,158</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Notes to Financial Statements for the years ended June 30, 2023 and 2022

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Kick Drugs Out Of America Foundation does business as KICKSTART KIDS and was incorporated in Washington, D.C. in 1990. Effective January 1, 2023, Kick Drugs Out Of America Foundation was converted to be a Texas nonprofit corporation. KICKSTART KIDS' primary objective is to teach discipline and promote self-esteem through the instruction of karate to children in and around Houston, Dallas, Austin, and various other Texas cities.

Federal income tax status – KICKSTART KIDS is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Cash equivalents include bank deposits and highly liquid financial instruments with original maturities of three months or less.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At June 30, 2023, \$160,140 of contributions receivable are expected to be collected in one year and \$80,000 are expected to be collected in one to five years.

Property with a cost of \$5,000 or more and an estimated useful life of more than one year is capitalized and reported at cost, if purchased, or estimated fair value at the date of gift, if donated. Depreciation and amortization is provided on a straight-line basis over estimated useful lives of 5 to 10 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Service contract fees and program fees

Service contract fees are derived from providing karate instruction programs to schools in North, Southeast, and Central Texas and are recognized ratably over time as those services are provided. Service contract fees are recognized at the contractual amount of consideration KICKSTART KIDS expects to be entitled to in exchange for those services. All performance obligations related to service contract fees are satisfied within the academic year of the schools which is contained within the fiscal year. Service contract fees are due within 30 days of initiation of the schools' operating budget for the academic year, all of which are due within the fiscal year. The nature of these services does not give rise to any variable considerations, warranties or other related obligations. There are no receivables or contract assets

resulting from service contract fees at June 30, 2023, 2022 or 2021. Deferred revenue from service contract fees was \$31,250 at June 30, 2021. There are no deferred revenue from service contract fees at June 30, 2023 and 2022.

Program and tournament fees are derived from annual student registration fees and tournament fees related to the karate instruction program and tournaments. Program fees are recognized at the point in time the services are provided to the students. Program fees are recognized at the amount of consideration KICKSTART KIDS expects to be entitled to in exchange for those services. All performance obligations related to program fees are satisfied within the academic year of the schools which is contained within the fiscal year. Program fees are due at the beginning of the school year and tournament fees are due in advance of competitions. There are no receivables or contract assets resulting from program fees at June 30, 2023, 2022 or 2021. Deferred revenue from program fees was \$0, \$2,898, and \$7,093 at June 30, 2023, 2022 and 2021, respectively.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before KICKSTART KIDS is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as a refundable advance.

Contributed nonfinancial assets are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used or when the service is provided. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Fundraising events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Fundraising events revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as refundable advances until earned. Cost of direct benefits provided to donors and cost of sales represents the cost of goods and services provided to attendees of the fundraising events.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on usage of related facilities.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 4,123,258	\$ 2,875,574
Contributions receivable	<u>240,140</u>	<u>218,961</u>
Total financial assets	4,363,398	3,094,535
Less financial assets not available for general expenditure:		
Board-designated operating reserve	(540,554)	(522,758)
Purpose and time-restricted net assets not expected to be satisfied in the coming year	<u>(327,266)</u>	<u>(272,766)</u>
Total financial assets available for general expenditure	<u>\$ 3,495,578</u>	<u>\$ 2,299,011</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, KICKSTART KIDS considers all expenditures related to its ongoing karate instruction activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. KICKSTART KIDS is substantially supported by service contract fees, contributions, and fundraising events revenue, and regularly monitors liquidity required to meet its operating needs.

KICKSTART KIDS' Board of Directors has designated a portion of its resources without donor restrictions as an operating reserve. Although KICKSTART KIDS does not intend to spend from the board-designated funds for the foreseeable future, amounts from the board-designated funds could be made available, if necessary.

During 2023, KICKSTART KIDS received \$1,818,538 of Employee Retention Credits from the Department of Treasury, as KICKSTART KIDS met the eligibility requirements.

The government grants require fulfillment of certain conditions as set forth in the grant contract and are subject to review and audit by the awarding agencies. Such reviews and audits could result in discovery of unallowable activities and unallowable costs. Consequently, the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of noncompliance by KICKSTART KIDS with the terms of the contracts. Management believes such disallowances, if any, would not be material to KICKSTART KIDS' financial position or changes in net assets.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2023</u>	<u>2022</u>
Government money market funds	\$ 2,731,582	\$ -
Bank deposits	<u>1,391,676</u>	<u>2,875,574</u>
Total cash and cash equivalents	<u>\$ 4,123,258</u>	<u>\$ 2,875,574</u>

KICKSTART KIDS has entered into a master agreement with a bank to invest excess cash balances on an overnight basis. Under the agreement, cash in excess of \$500,000 is swept at the end of each day and used to purchase government money market funds, subject to certain restrictions. The bank in turn, repurchases the securities the following day.

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2023</u>	<u>2022</u>
Computer software	\$ 330,462	\$ 266,202
Vehicles	48,311	48,311
Furniture and equipment	<u>19,839</u>	<u>19,839</u>
Total property, at cost	398,612	334,352
Accumulated depreciation	<u>(189,977)</u>	<u>(134,770)</u>
Property, net	<u>\$ 208,635</u>	<u>\$ 199,582</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Virtual karate academy	\$ 245,666	\$ 246,166
Karate program at Revere Middle School	-	4,778
Scholarships	1,600	1,600
Student registration and program management website	-	88,517
Subject to passage of time	<u>147,500</u>	<u>195,000</u>
Total net assets with donor restrictions	<u>\$ 394,766</u>	<u>\$ 536,061</u>

NOTE 6 – CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets and associated expenses were recognized as follows:

<u>CONTRIBUTED NONFINANCIAL ASSETS</u>	<u>UTILIZED IN PROGRAMS/ACTIVITIES</u>	<u>DONOR RESTRICTIONS</u>	<u>VALUATION TECHNIQUES AND INPUTS</u>	<u>2023 REVENUE RECOGNIZED</u>	<u>2022 REVENUE RECOGNIZED</u>
Legal services	Employment and administrative matters	None	Fair value estimated based on prevailing rates for similar services.	\$ 198,534	\$ 185,825
Office space	Administrative functions	None	Fair value estimated using recent comparable rental rates for area.	150,012	150,012
Auction items	Fundraising	None	Fair value estimated based on proceeds from the auction.	107,080	265,624
Advertising	Fundraising	None	Fair value estimated based on prevailing rates for similar services.	79,030	-
Tax return preparation and other professional services	Administrative activities	None	Fair value estimated based on prevailing rates for similar services.	<u>64,109</u>	<u>38,861</u>
Total contributed nonfinancial assets				<u>\$ 598,765</u>	<u>\$ 640,322</u>

NOTE 7 – CONCENTRATIONS

Service contract fees from four school districts represent approximately 68% and 69% of KICKSTART KIDS' total service contract fees in 2023 and 2022, respectively. Approximately 84% and 94% of KICKSTART KIDS' total contributions receivable balance were from three donors at June 30, 2023 and 2022, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
