

KICKSTART KIDS

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

KICKSTART KIDS

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of June 30, 2019 and 2018	3
Statement of Activities for the year ended June 30, 2019	4
Statement of Activities for the year ended June 30, 2018	5
Statements of Cash Flows for the years ended June 30, 2019 and 2018	6
Statement of Functional Expenses for the year ended June 30, 2019	7
Statement of Functional Expenses for the year ended June 30, 2018	8
Notes to Financial Statements for the years ended June 30, 2019 and 2018	9

Independent Auditors' Report

To the Board of Directors of
KICKSTART KIDS:

We have audited the accompanying financial statements of **KICKSTART KIDS**, which comprise the statements of financial position as of June 30, 2019 and 2018 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.

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 our audits 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 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 **KICKSTART KIDS** as of June 30, 2019 and 2018 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, **KICKSTART KIDS** adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended June 30, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

December 6, 2019

KICKSTART KIDS

Statements of Financial Position as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (<i>Note 4</i>)	\$ 1,593,668	\$ 1,586,912
Service contracts receivable	87,065	
Contributions receivable	446,001	48,768
Prepaid expenses and other assets	89,980	93,726
Property, net (<i>Note 6</i>)	<u>80,849</u>	<u>4,360</u>
TOTAL ASSETS	<u>\$ 2,297,563</u>	<u>\$ 1,733,766</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 49,014	\$ 76,602
Pension liability (<i>Note 9</i>)	<u>75,725</u>	<u>60,281</u>
Total liabilities	<u>124,739</u>	<u>136,883</u>
Net assets:		
Without donor restrictions	1,436,030	1,337,255
With donor restrictions (<i>Note 7</i>)	<u>736,794</u>	<u>259,628</u>
Total net assets	<u>2,172,824</u>	<u>1,596,883</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,297,563</u>	<u>\$ 1,733,766</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Service contract fees (<i>Note 5</i>)	\$ 3,499,000		\$ 3,499,000
Contributions (<i>Note 8</i>)	395,670	\$ 999,413	1,395,083
Fundraising events	1,170,485		1,170,485
Cost of direct benefits provided to donors	(172,759)		(172,759)
Cost of sales related to fundraising events	(72,354)		(72,354)
Program fees and other income	<u>505,241</u>		<u>505,241</u>
Total revenue	5,325,283	999,413	6,324,696
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>522,247</u>	<u>(522,247)</u>	
Total	<u>5,847,530</u>	<u>477,166</u>	<u>6,324,696</u>
EXPENSES:			
Program services – Karate instruction	4,496,694		4,496,694
Management and general	410,300		410,300
Fundraising	<u>723,044</u>		<u>723,044</u>
Total expenses	<u>5,630,038</u>		<u>5,630,038</u>
CHANGES IN NET ASSETS FROM OPERATIONS	217,492	477,166	694,658
Other pension-related changes (<i>Note 9</i>)	<u>(118,717)</u>		<u>(118,717)</u>
CHANGES IN NET ASSETS	98,775	477,166	575,941
Net assets, beginning of year	<u>1,337,255</u>	<u>259,628</u>	<u>1,596,883</u>
Net assets, end of year	<u>\$ 1,436,030</u>	<u>\$ 736,794</u>	<u>\$ 2,172,824</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Activities for the year ended June 30, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Service contract fees (<i>Note 5</i>)	\$ 3,557,000		\$ 3,557,000
Contributions (<i>Note 8</i>)	444,264	\$ 524,862	969,126
Fundraising events	1,282,765		1,282,765
Cost of direct benefits provided to donors	(149,230)		(149,230)
Cost of sales related to fundraising events	(68,816)		(68,816)
Program fees and other income	<u>482,853</u>		<u>482,853</u>
Total revenue	5,548,836	524,862	6,073,698
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>673,364</u>	<u>(673,364)</u>	
Total	<u>6,222,200</u>	<u>(148,502)</u>	<u>6,073,698</u>
EXPENSES:			
Program services – Karate instruction	4,728,576		4,728,576
Management and general	476,946		476,946
Fundraising	<u>774,979</u>		<u>774,979</u>
Total expenses	<u>5,980,501</u>		<u>5,980,501</u>
CHANGES IN NET ASSETS FROM OPERATIONS	241,699	(148,502)	93,197
Other pension-related changes (<i>Note 9</i>)	<u>347,712</u>		<u>347,712</u>
CHANGES IN NET ASSETS	589,411	(148,502)	440,909
Net assets, beginning of year (<i>Note 2</i>)	<u>747,844</u>	<u>408,130</u>	<u>1,155,974</u>
Net assets, end of year	<u>\$ 1,337,255</u>	<u>\$ 259,628</u>	<u>\$ 1,596,883</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statements of Cash Flows for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 575,941	\$ 440,909
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,712	7,028
Changes in operating assets and liabilities:		
Service contracts receivable	(87,065)	75,000
Contributions receivable	(397,233)	40,982
Prepaid expenses and other assets	3,746	30,048
Accounts payable and other liabilities	(27,588)	27,680
Pension liability	<u>15,444</u>	<u>(418,438)</u>
Net cash provided by operating activities	<u>85,957</u>	<u>203,209</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(79,201)</u>	
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,756	203,209
Cash and cash equivalents, beginning of year	<u>1,586,912</u>	<u>1,383,703</u>
Cash and cash equivalents, end of year	<u>\$ 1,593,668</u>	<u>\$ 1,586,912</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Functional Expenses for the year ended June 30, 2019

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 3,213,248	\$ 213,011	\$ 346,715	\$ 3,772,974
Payroll related costs	661,178	43,817	71,320	776,315
Professional fees	68,187	97,469	119,023	284,679
Occupancy	106,360	17,999	39,271	163,630
Uniforms	115,770			115,770
Insurance	70,699	16,593	179	87,471
Travel	47,144	580	23,856	71,580
Office expenses and supplies	28,059	14,409	24,411	66,879
Awards	41,442		8,743	50,185
Gear	46,500			46,500
Meetings and conferences	8,089	1,545	35,763	45,397
Belts	42,345			42,345
School expenses and supplies	26,871		11,459	38,330
Bank charges and credit card fees	4,538	1,677	19,918	26,133
Postage and printing	2,130	989	18,835	21,954
Tournament fees	10,178			10,178
Depreciation	1,763	298	651	2,712
Other	<u>2,193</u>	<u>1,913</u>	<u>2,900</u>	<u>7,006</u>
Total expenses	<u>\$ 4,496,694</u>	<u>\$ 410,300</u>	<u>\$ 723,044</u>	5,630,038
Cost of direct benefits provided to donors				172,759
Cost of sales related to fundraising events				<u>72,354</u>
Total				<u>\$ 5,875,151</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Statement of Functional Expenses for the year ended June 30, 2018

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 3,280,515	\$ 249,196	\$ 400,439	\$ 3,930,150
Payroll related costs	660,191	50,087	80,546	790,824
Professional fees	86,667	119,643	132,539	338,849
Occupancy	94,508	21,002	34,502	150,012
Uniforms	155,536			155,536
Insurance	58,560	14,340	500	73,400
Travel	101,185	1,405	21,531	124,121
Office expenses and supplies	28,849	14,397	20,500	63,746
Awards	24,623		5,527	30,150
Gear	70,084			70,084
Meetings and conferences	38,233	805	30,140	69,178
Belts	60,641			60,641
School expenses and supplies	25,308		10,104	35,412
Bank charges and credit card fees	3,342	3,586	16,706	23,634
Postage and printing	4,451	619	15,290	20,360
Tournament fees	20,184			20,184
Depreciation	4,428	984	1,616	7,028
Other	<u>11,271</u>	<u>882</u>	<u>5,039</u>	<u>17,192</u>
Total expenses	<u>\$ 4,728,576</u>	<u>\$ 476,946</u>	<u>\$ 774,979</u>	5,980,501
Cost of direct benefits provided to donors				149,230
Cost of sales related to fundraising events				<u>68,816</u>
Total				<u>\$ 6,198,547</u>

See accompanying notes to financial statements.

KICKSTART KIDS

Notes to Financial Statements for the years ended June 30, 2019 and 2018

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. **KICKSTART KIDS**' primary objective is to teach discipline and promote self-esteem through the instruction of karate to children in and around Houston, Dallas, Galveston, 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 and cash equivalents include bank deposits and highly liquid financial instruments with original maturities of three months or less.

Allowance for uncollectible service contracts receivable – An allowance for service contracts receivable is provided when it is believed balances may not be collected in full. It is **KICKSTART KIDS**' policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of receivable balances.

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, 2019, contributions receivable are due to be received as follows: \$246,001 within one year and \$200,000 in one to five years.

Property is reported at cost if purchased or at fair value at the date of gift if donated. **KICKSTART KIDS**' policy is to capitalize property purchases over \$2,500. Depreciation 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 represent fees from schools for which **KICKSTART KIDS** conducts karate instruction programs. Fees are recognized in the period in which the services are provided.

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 restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Contributed materials, use of facilities and services are recognized as revenue at fair value 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.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. 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 program or supporting 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.

Recent financial accounting pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. **KICKSTART KIDS** is required to apply the amendments in its fiscal year ending June 30, 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management does not expect adoption of this ASU to have a significant impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. **KICKSTART KIDS** is required to adopt this ASU for fiscal year ending June 30, 2020 using an appropriate retrospective method. Management does not expect adoption of this ASU to have a significant impact on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

KICKSTART KIDS adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – 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, 2019 comprise the following:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 1,593,668
Service contracts receivable	87,065
Contributions receivable	<u>446,001</u>
Total financial assets	<u>2,126,734</u>
Less financial assets not available for general expenditure:	
Board-designated cash equivalents	(517,957)
Donor-restricted assets for use in future periods or projects	<u>(425,794)</u>
Total financial assets available for general expenditure	<u>\$ 1,182,983</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 operating reserve. Although **KICKSTART KIDS** does not intend to spend from the board-designated funds, amounts from the board-designated funds could be made available, if necessary.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2019</u>	<u>2018</u>
Bank deposits	\$ 833,699	\$ 721,806
Money market mutual funds	<u>759,969</u>	<u>865,106</u>
Total cash and cash equivalents	<u>\$ 1,593,668</u>	<u>\$ 1,586,912</u>

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

NOTE 5 – CONCENTRATIONS

Service contract fees from four school districts represent approximately 70% and 71% of **KICKSTART KIDS**' total fees in 2019 and 2018, respectively. At June 30, 2019, 75% of **KICKSTART KIDS**' total service contracts receivable balance was from one school district. In 2019, approximately 43% of total contributions was from one donor. Approximately 90% and 95% of **KICKSTART KIDS**' total contributions receivable balance was from one donor at June 30, 2019 and 2018, respectively.

NOTE 6 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Furniture, equipment and software	\$ 95,413	\$ 16,212
Vehicles	28,637	28,637
Leasehold improvements	<u>3,627</u>	<u>3,627</u>
Total property, at cost	127,677	48,476
Accumulated depreciation	<u>(46,828)</u>	<u>(44,116)</u>
Property, net	<u>\$ 80,849</u>	<u>\$ 4,360</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Digital community website	\$ 635,194	\$ 258,028
Program fees aid	100,000	
Scholarships	<u>1,600</u>	<u>1,600</u>
Total net assets with donor restrictions	<u>\$ 736,794</u>	<u>\$ 259,628</u>

NOTE 8 – IN-KIND CONTRIBUTIONS

KICKSTART KIDS recognized the following in-kind contributions and expenses during the year ended June 30, 2019:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Office space	\$ 106,360	\$ 17,999	\$ 39,271	\$ 163,630
Professional services	<u> </u>	<u>37,278</u>	<u>2,556</u>	<u>39,834</u>
Total in-kind contributions	<u>\$ 106,360</u>	<u>\$ 55,277</u>	<u>\$ 41,827</u>	<u>\$ 203,464</u>

KICKSTART KIDS recognized the following in-kind contributions and expenses during the year ended June 30, 2018:

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Office space	\$ 94,508	\$ 21,001	\$ 34,503	\$ 150,012
Professional services	<u> </u>	<u>59,109</u>	<u>7,250</u>	<u>66,359</u>
Total in-kind contributions	<u>\$ 94,508</u>	<u>\$ 80,110</u>	<u>\$ 41,753</u>	<u>\$ 216,371</u>

NOTE 9 – EMPLOYEE RETIREMENT PLAN

Defined benefit retirement plan – **KICKSTART KIDS** provides a noncontributory, defined benefit retirement plan covering all full-time employees. Benefits are based on years of service and compensation. Participants employed at January 1, 2007 are credited with years of service beginning with their original hire date. Pension costs are computed on the basis of accepted actuarial methods. **KICKSTART KIDS** uses the straight-line method of amortization for the transition liability and unrecognized gains and losses. **KICKSTART KIDS'** funding policy is to annually contribute the minimum required by the Employee Retirement Income Security Act of 1974. **KICKSTART KIDS** uses a June 30 measurement date for the plan. The plan was amended to freeze the accrual of benefits effective as of April 30, 2017.

The funded status of the plan at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Present value of projected benefit obligation	\$ 930,470	\$ 908,774
Fair value of plan assets	<u>(854,745)</u>	<u>(848,493)</u>
Deficiency of plan assets under projected benefit obligation	<u>\$ 75,725</u>	<u>\$ 60,281</u>
Accumulated benefit obligation	<u>\$ 930,470</u>	<u>\$ 908,774</u>
Components of current period net periodic pension cost:		
Interest cost	\$ 51,270	\$ 76,909
Expected return on assets	(49,813)	(45,638)
Amortization of transition obligation	16,841	16,841
Amortization of gain	<u>(49,571)</u>	<u>(18,838)</u>
Total current period net periodic pension cost	<u>\$ (31,273)</u>	<u>\$ 29,274</u>
Other changes previously recognized in changes in net assets not yet recognized as net periodic pension cost:		
	<u>2019</u>	<u>2018</u>
Transition obligation	\$ 294,711	\$ 311,552
Net gain	<u>(698,881)</u>	<u>(834,439)</u>
Total amount previously recognized in changes in net assets not yet recognized as net periodic pension cost	<u>\$ (404,170)</u>	<u>\$ (522,887)</u>

The estimated transition obligation that will be amortized from changes in net assets into net periodic pension cost over the next fiscal year is \$16,841. The estimated actuarial gain that is expected to be amortized over the next fiscal year is \$40,389.

Pension amounts reported in these financial statements:

	<u>2019</u>	<u>2018</u>
Pension liability	\$75,725	\$60,281
Pension expense (revenue)	\$(31,273)	\$29,274
Other pension-related changes	\$118,717	\$(347,712)

Weighted-average assumptions used to determine benefit obligations at end of year:

	<u>2019</u>	<u>2018</u>
Discount rate used to measure the projected benefit obligation	6.00%	6.00%

Weighted-average assumptions used to determine net periodic pension cost:

	<u>2019</u>	<u>2018</u>
Discount rate	6.00%	6.00%
Expected return on plan assets	6.00%	6.00%
Salary scale	4.00%	4.00%
Average future working lifetime	30	30

Plan assets

The primary objective in the management of plan assets is to meet the plan's liabilities of paying benefit obligations to its participants. The secondary objective is to minimize and control the gap between the plan's assets and liabilities, evaluated on an ongoing basis through the target asset allocation, as well as by setting a target duration of assets in line with the plan's liabilities. Over a five-year market cycle, the plan's objective is to match or exceed its actuarial long-term rate of return. The expected long-term rate of return on assets is established taking into account the intended asset mix and historical rates of return on comparable assets.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Plan assets measured at fair value on a recurring basis at June 30, 2019 by asset category are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Domestic equity securities	\$ 335,216			\$ 335,216
Money market mutual funds	192,672			192,672
Exchange-traded funds	165,367			165,367
Bond mutual funds	<u>161,490</u>			<u>161,490</u>
Total	<u>\$ 854,745</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 854,745</u>

Plan assets measured at fair value on a recurring basis at June 30, 2018 by asset category are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Domestic equity securities	\$ 380,245			\$ 380,245
Money market mutual funds	192,784			192,784
Exchange-traded funds	119,010			119,010
Bond mutual funds	<u>156,454</u>			<u>156,454</u>
Total	<u>\$ 848,493</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 848,493</u>

Valuation methods used for assets measured at fair value are as follows:

- *Equity securities* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.

No assets of the plan are expected to be returned to **KICKSTART KIDS** in the next fiscal year.

Cash flows

Contributions to the plan provide for benefits attributed to service to date, as well as those expected to be earned in the future. **KICKSTART KIDS** contributed \$72,000 to the plan in 2019 and \$100,000 in 2018. **KICKSTART KIDS** expects to contribute \$280,000 to the plan in 2020. **KICKSTART KIDS** distributed \$108,545 from the plan in 2019 and \$7,123 in 2018.

Estimated future benefit payments over the next ten years are as follows:

2020	\$25,982
2021	\$25,752
2022	\$33,194
2023	\$33,444
2024	\$36,458
2025 through 2029	\$196,410

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 6, 2019, 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.