



Hope Cottage, Inc.

**Financial Statements
December 31, 2022 and 2021**

Hope Cottage, Inc.

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Independent Auditors' Report

To the Board of Directors of
Hope Cottage, Inc.

Opinion

We have audited the accompanying financial statements of Hope Cottage, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Cottage, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance to accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Hope Cottage, Inc. 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 GAAP, 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 Hope Cottage, Inc.'s ability to continue as a going concern within 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 GAAS 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, misrepresentation 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 GAAS, 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 Hope Cottage Inc.'s 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 Hope Cottage Inc.'s 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 Limited Liability Partnership

Arlington, Texas
May 10, 2023

Hope Cottage, Inc.
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	\$ 252,940	\$ 444,508
Accounts receivable, net	134,937	72,610
Pledges receivable	60,000	32,769
Investments	3,470,959	4,326,230
Prepaid expenses	30,638	30,973
Total current assets	3,949,474	4,907,090
Noncurrent assets:		
Beneficial interest in charitable trust	1,251,850	1,452,359
Property and equipment, net	3,326,837	3,408,565
Total noncurrent assets	4,578,687	4,860,924
Total assets	\$ 8,528,161	\$ 9,768,014
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 17,129	\$ 48,405
Accrued expenses	63,188	58,177
Deferred revenue	110,000	120,000
Total current liabilities	190,317	226,582
Net assets:		
Without donor restrictions	6,966,685	7,877,546
With donor restrictions	1,371,159	1,663,886
Total net assets	8,337,844	9,541,432
Total liabilities and net assets	\$ 8,528,161	\$ 9,768,014

See notes to financial statements.

Hope Cottage, Inc.
Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 683,592	\$ 135,000	\$ 818,592
Program service fees	564,891	-	564,891
Contributions of nonfinancial assets	6,000	-	6,000
Net assets released from restrictions	226,015	(226,015)	-
Total support and revenue	1,480,498	(91,015)	1,389,483
Operating expenses:			
Program services	1,351,020	-	1,351,020
Management and general	280,976	-	280,976
Fundraising	171,473	-	171,473
Total operating expenses	1,803,469	-	1,803,469
Change in net assets from operating activities	(322,971)	(91,015)	(413,986)
Other loss:			
Investment loss, net	(587,890)	(201,712)	(789,602)
Change in net assets	(910,861)	(292,727)	(1,203,588)
Net assets at beginning of year	7,877,546	1,663,886	9,541,432
Net assets at end of year	\$ 6,966,685	\$ 1,371,159	\$ 8,337,844

See notes to financial statements.

Hope Cottage, Inc.
Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 519,259	\$ 205,000	\$ 724,259
Program service fees	757,608	-	757,608
Contributions of nonfinancial assets	5,760	-	5,760
Net assets released from restrictions	167,557	(167,557)	-
Total support and revenue	1,450,184	37,443	1,487,627
Operating expenses:			
Program services	1,573,016	-	1,573,016
Management and general	274,229	-	274,229
Fundraising	178,231	-	178,231
Total operating expenses	2,025,476	-	2,025,476
Change in net assets from operating activities	(575,292)	37,443	(537,849)
Other income:			
Gain on forgiveness of Paycheck Protection Program loan	213,945	-	213,945
Investment income, net	455,449	161,914	617,363
Total other income	669,394	161,914	831,308
Change in net assets	94,102	199,357	293,459
Net assets at beginning of year	7,783,444	1,464,529	9,247,973
Net assets at end of year	\$ 7,877,546	\$ 1,663,886	\$ 9,541,432

See notes to financial statements.

Hope Cottage, Inc.
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 797,348	\$ 139,138	\$ 110,452	\$ 1,046,938
Payroll taxes	57,466	21,259	7,887	86,612
Employee benefits	69,376	8,492	9,036	86,904
Contract services	55,810	42,429	12,094	110,333
Advertising	4,622	640	474	5,736
Bank charges	-	1,281	-	1,281
Communications	13,574	1,063	1,062	15,699
Conferences and training	4,841	1,894	2,148	8,883
Depreciation	62,245	10,861	8,622	81,728
Direct client assistance	23,182	-	-	23,182
Dues and subscriptions	5,984	6,067	329	12,380
Foster care	106,358	-	-	106,358
General and office supplies	44,166	4,836	1,688	50,690
Insurance	25,257	4,408	3,498	33,163
Legal and professional	8,538	15,700	-	24,238
Miscellaneous	2,269	14,818	109	17,196
Occupancy	37,736	7,085	5,013	49,834
Printing and postage	3,988	1,005	8,104	13,097
Travel and transportation	28,260	-	957	29,217
Total expenses	\$ 1,351,020	\$ 280,976	\$ 171,473	\$ 1,803,469

See notes to financial statements.

Hope Cottage, Inc.
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 873,461	\$ 131,842	\$ 107,923	\$ 1,113,226
Payroll taxes	66,507	16,345	8,233	91,085
Employee benefits	86,695	14,502	9,343	110,540
Contract services	46,430	29,203	21,222	96,855
Advertising	3,717	-	536	4,253
Bank charges	-	2,817	-	2,817
Communications	18,653	1,274	1,650	21,577
Conferences and training	12,199	4,165	774	17,138
Depreciation	71,130	10,950	8,789	90,869
Direct client assistance	29,056	-	-	29,056
Dues and subscriptions	7,673	9,690	485	17,848
Foster care	202,117	-	-	202,117
General and office supplies	49,920	6,398	1,732	58,050
Insurance	24,861	5,090	3,072	33,023
Legal and professional	10,661	15,350	-	26,011
Miscellaneous	822	20,663	511	21,996
Occupancy	35,410	5,014	4,058	44,482
Printing and postage	6,349	926	9,903	17,178
Rent	4,061	-	-	4,061
Travel and transportation	23,294	-	-	23,294
Total expenses	<u>\$ 1,573,016</u>	<u>\$ 274,229</u>	<u>\$ 178,231</u>	<u>\$ 2,025,476</u>

See notes to financial statements.

Hope Cottage, Inc.
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,203,588)	\$ 293,459
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Gain on forgiveness of Paycheck Protection Program Loan	-	(212,300)
Depreciation	81,728	90,869
Allowance for doubtful accounts	939	-
Net realized and unrealized (gains) losses on investments	650,640	(403,363)
Change in value of beneficial interest in charitable trust	200,509	(161,914)
Changes in assets and liabilities:		
Accounts receivable	(63,266)	25,410
Pledges receivable	(27,231)	(21,233)
Prepaid expenses	335	1,979
Deposits	-	850
Accounts payable	(31,276)	16,938
Accrued expenses	5,011	11,790
Deferred revenue	(10,000)	30,000
Net cash used by operating activities	(396,199)	(327,515)
Cash flows from investing activities:		
Purchases of property and equipment	-	(10,619)
Loss on disposal of assets	-	4,898
Purchases of investments	(621,546)	(503,131)
Proceeds from sales of investments	826,177	700,351
Net cash provided by investing activities	204,631	191,499
Net change in cash	(191,568)	(136,016)
Cash at beginning of year	444,508	580,524
Cash at end of year	\$ 252,940	\$ 444,508

See notes to financial statements.

Hope Cottage, Inc.

Notes to Financial Statements

1. Organization

Hope Cottage, Inc. (Organization) is the oldest nonprofit, non-faith based adoption agency in Dallas and has been serving North Texas since 1918. The Organization nurtures and builds families through education, counseling and adoption services. The Organization is supported primarily through contributions, grants, fees and fundraising activities.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors approved spending policy. As of December 31, 2022 and 2021, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Contributions whose restrictions are met in the same year the contributions are received are reported as net assets without donor restrictions. Expirations of net assets with donor restrictions (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.

Hope Cottage, Inc.

Notes to Financial Statements

Financial Instruments and Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit and market risk consist principally of cash, pledges receivable, accounts receivable and investments in marketable securities. The Organization maintains cash balances at several financial institutions located in Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2022, the Organization had no uninsured balances.

Accounts receivable are unsecured and are due from government agencies, other organizations and clients of the Organization. Pledges receivable are unsecured and are due from various donors. The Organization continually evaluates the collectability of accounts and pledges receivable and maintains allowances for potential losses, if considered necessary. The allowance for doubtful accounts was \$4,484 and \$3,545 at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, 100% and 92% of pledges receivable are due from two donors, respectively. At December 31, 2022 and 2021, 90% and 100% of accounts receivable are due from four and three agencies, respectively.

The Organization's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Organization's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of the investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Investments

The investments of the Organization consist of money market funds, corporate bonds, common stock, a real estate investment trust, a beneficial interest in charitable trust and mineral interests and are stated at fair value in the statements of financial position. The Organization classifies money market accounts held by external investment managers as investments as these funds are not readily available for operations.

Property and Equipment

Property and equipment purchased by the Organization are recorded at cost or if acquired by gift, at the fair value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000; the fair value of donated property and equipment is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of 25 to 40 years for buildings and improvements and 2 to 10 years for furniture and equipment, computer hardware and software and website.

Hope Cottage, Inc.

Notes to Financial Statements

Impairment of Long-Lived Assets

Management of the Organization periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. Fair value is determined based on the estimated future cash inflows attributable to the asset less estimated future cash outflows. No such losses were recognized during the years ended December 31, 2022 and 2021.

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets or an unconditional promise to give is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Program service fees are recognized as revenues when the service is performed. Adoption fees are recognized as revenue when the child is placed with a family. Deposits received for adoption services are deferred, and 50% of all adoption fee deposits are nonrefundable.

Donated materials and services are reflected as contributions of nonfinancial assets at their estimated fair values at date of receipt. The Organization recognizes contributions of nonfinancial assets for certain services received at the fair value of those services, provided those services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Federal Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the years ended December 31, 2022 and 2021. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax return and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2022 and 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Hope Cottage, Inc.

Notes to Financial Statements

Allocation of Functional Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various functions benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, communications, advertising, dues and subscriptions and general and office supplies, which are allocated on a square footage basis, as well as salaries, payroll taxes, employee benefits, insurance and certain contract services which are allocated on the basis of estimates of time and effort. All other expenses have been directly allocated.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Reclassification

Certain items in the 2021 financial statements have been reclassified for comparative purposes to conform with the presentation of the 2022 financial statements.

Accounting Pronouncements Adopted

The Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07). ASU 2020-07 increases transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancement to presentation and disclosure. The amendments in ASU 2020-07 address stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFP's, as well as the amount of those contributions used in an NFP's programs and other activities. The Organization has adopted this ASU on the retrospective basis as of and for the year ended December 31, 2022. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes contributions of nonfinancial assets, and therefore, no changes were required to net assets as of January 1, 2021. The presentation and disclosures of contributions of nonfinancial assets have been enhanced in accordance with the standard.

Hope Cottage, Inc.
Notes to Financial Statements

3. Fair Value Measurements

The Organization records financial instruments at estimated fair value. Fair value accounting defines fair value as 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 fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities as of the reporting date;
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices in active markets for similar assets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets;
- Level 3: Unobservable inputs that are supported by little or no market activity and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Money market funds:	Valued using \$1 for the net asset value (NAV).
Common stock:	Valued at closing prices reported in active markets in which the individual securities are traded.
Real estate investment trust:	Valued at the closing price reported in an active market in which the security is traded.
Corporate bonds:	Valued based on market price quotes corroborated by recently executed transactions observable in the market.
Mineral interests:	Valued based on industry standards of 48 months of undiscounted income based on the most recent 12 month income history.

Hope Cottage, Inc.
Notes to Financial Statements

Beneficial interest in charitable trust: Valued based on the fair values of the underlying investments in the trust, which are quoted prices in an active market.

The methods described above may produce fair value estimates that may not be indicative of net realized value or reflective of future values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following schedule sets forth by level, within the fair value hierarchy, the Organization's financial instruments at estimated fair value as of December 31, 2022:

Financial instruments	Level 1	Level 2	Level 3	Total
Money market funds	\$ 98,075	\$ -	\$ -	\$ 98,075
Common stock	1,954,311	-	-	1,954,311
Real estate investment trust	39,194	-	-	39,194
Corporate bonds	-	1,330,493	-	1,330,493
Mineral interests	-	-	48,886	48,886
Total investments	2,091,580	1,330,493	48,886	3,470,959
Beneficial interest in charitable trust	-	-	1,251,850	1,251,850
Total	<u>\$ 2,091,580</u>	<u>\$ 1,330,493</u>	<u>\$ 1,300,736</u>	<u>\$ 4,722,809</u>

The following schedule sets forth by level, within the fair value hierarchy, the Organization's financial instruments at estimated fair value as of December 31, 2021:

Financial instruments	Level 1	Level 2	Level 3	Total
Money market funds	\$ 95,186	\$ -	\$ -	\$ 95,186
Common stock	2,577,419	-	-	2,577,419
Real estate investment trust	43,875	-	-	43,875
Corporate bonds	-	1,531,654	-	1,531,654
Mineral interests	-	-	78,096	78,096
Total investments	2,716,480	1,531,654	78,096	4,326,230
Beneficial interest in charitable trust	-	-	1,452,359	1,452,359
Total	<u>\$ 2,716,480</u>	<u>\$ 1,531,654</u>	<u>\$ 1,530,455</u>	<u>\$ 5,778,589</u>

Hope Cottage, Inc.
Notes to Financial Statements

The following schedule summarizes investment income for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 67,909	\$ 67,031
Net realized and unrealized gains (losses)	(650,640)	403,363
Mineral interest income	17,381	9,165
Change in value of beneficial interest in charitable trust	(201,711)	161,914
Investment fees	<u>(22,541)</u>	<u>(24,110)</u>
	<u>\$ (789,602)</u>	<u>\$ 617,363</u>

The following is a reconciliation of the beginning and ending balances of mineral interests and the interest in the charitable trust measured at fair value using significant unobservable inputs (Level 3).

	<u>Beneficial Interest in Charitable Trust</u>	<u>Mineral Interest</u>	<u>Total</u>
Balance at December 31, 2020	\$ 1,290,445	\$ 139,052	\$ 1,429,497
Change in value	<u>161,914</u>	<u>(60,956)</u>	<u>100,958</u>
Balance at December 31, 2021	1,452,359	78,096	1,530,455
Change in value	<u>(200,509)</u>	<u>(29,210)</u>	<u>(229,719)</u>
Balance at December 31, 2022	<u>\$ 1,251,850</u>	<u>\$ 48,886</u>	<u>\$ 1,300,736</u>

The amount of total gains (losses) for the year included in change in net assets attributable to the change in unrealized gains (losses) relating to Level 3 financial instruments still held at the reporting date

	<u>2022</u>	<u>2021</u>
	<u>\$ (430,922)</u>	<u>\$ 100,958</u>

4. Interest in Charitable Trust

The Organization is the sole beneficiary of the L. Storey Stemmons and Grace Stemmons Kepler Charitable Trust (Charitable Trust). The Charitable Trust agreement provides that the trust property shall be held, administered and distributed exclusively for the benefit of the Organization. The purpose of the Charitable Trust is to provide funding for tuition, tutoring and other educational needs for persons receiving benefits from the Organization. Funds expended for persons receiving benefits from Our Friends Place (a nonprofit organization) are considered to be used for the benefit of the Organization. Both income and principal may be distributed in such amounts as necessary to carry out the exclusively charitable purposes of the Charitable Trust.

Hope Cottage, Inc.
Notes to Financial Statements

Under the Charitable Trust arrangement, the Organization has recorded the asset at the fair value of its beneficial interests in the trust's assets. Charitable Trust income is recognized as income with donor restrictions in the statements of activities. Subsequent changes in fair value of beneficial interests in trust assets are recorded as changes in value of beneficial interests in charitable trust in the net assets without donor restrictions class.

The Charitable Trust settlement document requires a minimum annual distribution to Our Friends Place of 1% of the fair value of the Charitable Trust as of the beginning of the year. Distributions totaling \$12,518 and \$14,524 were made to Our Friends Place during the years ended December 31, 2022 and 2021, respectively.

5. Property and Equipment

Property and equipment at December 31, 2022 and 2021 consists of the following:

	2022	2021
Land	\$ 812,244	\$ 812,244
Building and improvements	2,984,637	2,984,637
Furniture and equipment	98,528	101,528
Computer hardware and software	16,133	18,095
Website	-	34,823
	3,911,542	3,951,327
Accumulated depreciation	(584,705)	(542,762)
Total	\$ 3,326,837	\$ 3,408,565

Depreciation expense totaled \$81,728 and \$90,869 for the years ended December 31, 2022 and 2021, respectively.

6. Adoption Fee Revenue

The following table provides information about significant changes in adoption fees paid in advance as of December 31:

	2022	2021
Adoption fees paid in advance, beginning of year	\$ 120,000	\$ 90,000
Revenue recognized that was included in adoption fees at the beginning of the year	(60,000)	(45,000)
Increase in adoption fees due to cash received during the period	50,000	75,000
Adoption fees paid in advance, end of year	\$ 110,000	\$ 120,000

Hope Cottage, Inc.
Notes to Financial Statements

7. Contributed Nonfinancial Assets

During the years ended December 31, 2022 and 2021, the Organization received donated landscaping services totaling \$6,000 and \$5,760, respectively. Contributed services are valued at the estimated fair market value based on current rates for similar services. The amount was fully allocated to occupancy in the accompanying statements of functional expenses, and there were no donor restrictions related to this contribution.

8. Retirement Plan

The Organization established a SIMPLE IRA plan for its employees. Substantially all employees with two years of service are covered by the plan. The Organization (at its discretion) makes a dollar-for-dollar matching contribution up to 3% of an eligible employee's compensation or \$12,000, whichever is less. The Organization's matching contributions for the years ended December 31, 2022 and 2021 totaled \$9,611 and \$13,819, respectively.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Education and time	\$ 75,000	\$ 175,000
Tuition, tutoring and other education needs	1,236,159	1,458,886
Alley's House and time	-	20,000
Time restricted	<u>60,000</u>	<u>10,000</u>
	<u>\$ 1,371,159</u>	<u>\$ 1,633,886</u>

Net assets with donor restrictions at December 31, 2022 and 2021 include the Organization's beneficial interest in the charitable trust (see Note 4). Net assets released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by the donors during the years ended December 31, 2022 and 2021 totaled \$226,015 and \$167,557, respectively.

10. Paycheck Protection Program Loans

On May 5, 2020 the Organization received loan proceeds (PPP Loan) in the amount of \$212,300 from a financial institution under the Paycheck Protection Program, established as part of the Coronavirus Aid, Relief and Economic Security Act. The PPP Loan includes a feature that allows for forgiveness of the loan if the funds are used for eligible purposes, including payroll and benefits, and if the Organization maintains its payroll levels. On January 10, 2021, the Organization received forgiveness of the entire amount of the PPP Loan and accrued interest totaling \$213,945. The forgiveness of the PPP Loan is included in other income in the accompanying statements of activities.

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Notes to Financial Statements

11. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 252,940	\$ 444,508
Accounts receivable, net	134,937	72,610
Pledges receivable	60,000	32,769
Investments	3,470,959	4,326,230
Beneficial interest in charitable trust	<u>1,251,850</u>	<u>1,452,359</u>
Total financial assets	5,170,686	6,328,476
Less amounts not available to management:		
Beneficial interest in		
Stemmons Kepler Charitable Trust	<u>(1,251,850)</u>	<u>(1,452,359)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,918,836</u>	<u>\$ 4,876,117</u>

Pledges and accounts receivable are expected to be collected within one year or less. The Organization has a goal to maintain financial assets on hand to meet 90 days of normal operating expenses, which for the years ending December 31, 2022 and 2021, average \$156,000 and \$161,000 per month, respectively. The Organization manages its financial assets to meet its operating expenditures, liabilities and other obligations as they come due.

12. Related Party Transactions

Contributions from board members of the Organization totaled \$8,212 and \$10,875 during the years ended December 31, 2022 and 2021, respectively.

13. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.