



Hope Cottage, Inc.

**Financial Statements
December 31, 2019 and 2018**

Hope Cottage, Inc.

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Independent Auditors' Report

To the Board of Directors of
Hope Cottage, Inc.

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, 2019 and 2018, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Cottage, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has adopted ASU 2014-09, *Revenue from Contracts with Customers*, and ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*, in 2019 with retrospective application to 2018. Our opinion is not modified with respect to that matter.

A handwritten signature in cursive script that reads "Sutton Frost Cary".

A Limited Liability Partnership

Arlington, Texas
May 15, 2020

Hope Cottage, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 439,796	\$ 500,083
Investments	3,825,094	3,245,748
Pledges receivable	3,548	17,018
Accounts receivable	80,367	124,325
Prepaid expenses	31,087	29,915
Total current assets	4,379,892	3,917,089
Noncurrent assets:		
Beneficial interest in charitable trust	1,178,081	988,030
Property and equipment, net	3,577,342	3,672,034
Deposits	1,250	1,930
Total noncurrent assets	4,756,673	4,661,994
Total assets	\$ 9,136,565	\$ 8,579,083
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 60,542	\$ 64,343
Accrued expenses	42,364	38,824
Deferred revenue	110,000	90,000
Total current liabilities	212,906	193,167
Net assets:		
Without donor restrictions	7,606,228	7,282,759
With donor restrictions	1,317,431	1,103,157
Total net assets, as restated	8,923,659	8,385,916
Total liabilities and net assets	\$ 9,136,565	\$ 8,579,083

See notes to financial statements.

Hope Cottage, Inc.
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 356,154	\$ 140,000	\$ 496,154
Adoption and counseling fees	959,458	-	959,458
Special events, net of direct expenses of \$486	7,804	-	7,804
Net assets released from restrictions	165,777	(165,777)	-
Total support and revenue	1,489,193	(25,777)	1,463,416
Operating expenses:			
Program services:			
Adoption and counseling	1,545,166	-	1,545,166
Supporting services:			
Management and general	284,323	-	284,323
Fundraising	155,332	-	155,332
Total operating expenses	1,984,821	-	1,984,821
Change in net assets from operating activities	(495,628)	(25,777)	(521,405)
Other income:			
Investment income, net	819,097	240,051	1,059,148
Change in net assets	323,469	214,274	537,743
Net assets at beginning of year, as restated	7,282,759	1,103,157	8,385,916
Net assets at end of year	\$ 7,606,228	\$ 1,317,431	\$ 8,923,659

See notes to financial statements.

Hope Cottage, Inc.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 375,728	\$ 125,000	\$ 500,728
Adoption and counseling fees	1,370,837	-	1,370,837
Special events, net of direct expenses of \$12,066	44,117	-	44,117
Net assets released from restrictions	134,873	(134,873)	-
Total support and revenue	1,925,555	(9,873)	1,915,682
Operating expenses:			
Program services:			
Adoption and counseling	1,742,864	-	1,742,864
Supporting services:			
Management and general	254,482	-	254,482
Fundraising	148,685	-	148,685
Total operating expenses	2,146,031	-	2,146,031
Change in net assets from operating activities	(220,476)	(9,873)	(230,349)
Other income:			
Investment income, net	68,979	(13,050)	55,929
Change in net assets	(151,497)	(22,923)	(174,420)
Net assets at beginning of year, as restated	7,434,256	1,126,080	8,560,336
Net assets at end of year, as restated	<u>\$ 7,282,759</u>	<u>\$ 1,103,157</u>	<u>\$ 8,385,916</u>

See notes to financial statements.

Hope Cottage, Inc.
Statement of Functional Expenses
Year Ended December 31, 2019

	Adoption and Counseling	Management and General	Fundraising	Total
Salaries	\$ 825,483	\$ 145,860	\$ 85,613	\$ 1,056,956
Payroll taxes	60,232	19,450	6,503	86,185
Employee benefits	72,497	15,965	9,757	98,219
Contract services	24,906	29,970	14,759	69,635
Advertising	4,826	295	679	5,800
Bank charges	-	1,448	-	1,448
Communications	18,671	2,012	1,142	21,825
Conferences and training	13,474	6,068	2,572	22,114
Depreciation	73,954	13,067	7,670	94,691
Direct client assistance	34,859	-	-	34,859
Dues and subscriptions	8,540	4,467	1,254	14,261
Foster care	228,988	-	-	228,988
General and office supplies	15,387	7,385	2,256	25,028
Insurance	18,130	10,224	2,654	31,008
Legal and professional	22,784	14,600	-	37,384
Miscellaneous	-	47	-	47
Occupancy	46,966	7,299	4,610	58,875
Printing and postage	7,720	2,827	15,521	26,068
Property taxes	540	1,479	-	2,019
Rent	22,178	649	-	22,827
Travel and transportation	45,031	1,211	342	46,584
Special event	-	-	486	486
Total expenses	1,545,166	284,323	155,818	1,985,307
Less expenses included with revenues on the statement of activities				
Direct costs of special event	-	-	(486)	(486)
Total expenses included in the expense section on the statement of activities	\$ 1,545,166	\$ 284,323	\$ 155,332	\$ 1,984,821

See notes to financial statements.

Hope Cottage, Inc.
Statement of Functional Expenses
Year Ended December 31, 2018

	Adoption and Counseling	Management and General	Fundraising	Total
Salaries	\$ 850,723	\$ 126,580	\$ 83,874	\$ 1,061,177
Payroll taxes	63,177	15,772	6,545	85,494
Employee benefits	114,366	16,796	11,173	142,335
Contract services	25,581	15,656	7,705	48,942
Advertising	1,760	258	172	2,190
Bank charges	-	1,513	-	1,513
Communications	18,390	2,044	1,501	21,935
Conferences and training	13,674	9,873	3,575	27,122
Depreciation	83,882	12,320	8,195	104,397
Direct client assistance	33,866	-	-	33,866
Dues and subscriptions	6,655	2,972	952	10,579
Foster care	312,503	-	-	312,503
General and office supplies	24,977	5,413	2,525	32,915
Insurance	27,436	6,775	2,681	36,892
Legal and professional	39,039	14,350	-	53,389
Miscellaneous	9,880	12,793	-	22,673
Occupancy	40,470	5,717	3,708	49,895
Printing and postage	9,940	2,563	15,562	28,065
Property taxes	-	2,434	-	2,434
Rent	12,399	-	-	12,399
Travel and transportation	54,146	653	517	55,316
Special event	-	-	39,974	39,974
Total expenses	1,742,864	254,482	188,659	2,186,005
Less expenses included with revenues on the statement of activities				
Direct costs of special event	-	-	(39,974)	(39,974)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,742,864</u>	<u>\$ 254,482</u>	<u>\$ 148,685</u>	<u>\$ 2,146,031</u>

See notes to financial statements.

Hope Cottage, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 537,743	\$ (174,420)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	94,692	104,397
Net realized and unrealized losses (gains) on investments	(741,893)	17,196
Change in value of beneficial interest in charitable trust	(240,051)	13,050
Changes in assets and liabilities:		
Pledges receivable	13,470	356,675
Accounts receivable	43,958	(44,928)
Accrued investment income	-	34,260
Prepaid expenses	(1,172)	3,106
Deposits	680	(155)
Accounts payable	(3,801)	59,490
Accrued expenses	3,540	(25,660)
Deferred revenue	20,000	10,000
Net cash provided (used) by operating activities	(272,834)	353,011
Cash flows from investing activities:		
Distributions from beneficial interests in charitable trust	50,000	-
Purchases of investments	(601,547)	(393,592)
Proceeds from sales of investments	764,094	363,970
Net cash provided (used) by investing activities	212,547	(29,622)
Increase (decrease) in cash	(60,287)	323,389
Cash at beginning of year	500,083	176,694
Cash at end of year	\$ 439,796	\$ 500,083

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. During the year ended December 31, 2019, the Organization absorbed the activities of Alley's House, an unrelated nonprofit organization with a similar mission.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (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, 2019 and 2018, 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, 2019 balances at financial institutions exceeded federally insured amounts by \$194,973. The Organization has not experienced losses on such assets.

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. At December 31, 2019 and 2018, 100% and 90%, respectively, of pledges receivable are due from two donors. At December 31, 2019 and 2018, 100% and 98%, respectively, of accounts receivable are due from two agencies.

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 \$2,500; 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, 2019 and 2018.

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.

Counseling 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.

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, 2019 and 2018. 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, 2019 and 2018, 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.

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,

Hope Cottage, Inc.

Notes to Financial Statements

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 contracted 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.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2020.

The Organization is currently assessing the impact that adopting this new guidance will have on the financial statements.

Accounting Pronouncements Adopted

The Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) as of and for the year ended December 31, 2019 with retrospective application for the 2018 financial statements. Topic 606 is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain

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Notes to Financial Statements

arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components.

The Organization adopted FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*, as of and for the year ended December 31, 2019 with retrospective application for the 2018 financial statements. ASU 2018-08 was issued to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, Not-for-Profit Entities or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance.

As a result of the adoption of ASU 2014-09, the Organization restated net assets as of December 31, 2018 and 2017 for adoption fee deposits considered to be deferred revenue. This resulted in decreases to total net assets of \$45,000 and \$40,000 as of December 31, 2018 and 2017, respectively, and a decrease to the change in net assets for the year ended December 31, 2018 of \$5,000.

The presentation and disclosures of revenue have been enhanced in accordance with the standards.

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;

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Notes to Financial Statements

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.
Corporate bonds:	Valued based on market price quotes corroborated by recently executed transactions observable in the market.
Real estate investment trust:	Valued at the closing price reported in an active market in which the security is traded.
Mineral interests:	Valued based on industry standards of 48 months of undiscounted income based on the most recent 12 month income history.
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.

Hope Cottage, Inc.
Notes to Financial Statements

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:

Financial instruments	Level within the fair value hierarchy	2019	2018
Money market funds	Level 1	\$ 55,650	\$ 116,220
Common stock	Level 1	2,796,764	2,252,799
Real estate investment trust	Level 1	57,455	39,548
Corporate bonds	Level 2	729,804	688,206
Mineral interests	Level 3	185,421	148,975
Total investments		3,825,094	3,245,748
Beneficial interest in charitable trust	Level 3	1,178,081	988,030
Total		<u>\$ 5,003,175</u>	<u>\$ 4,233,778</u>

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

	2019	2018
Interest and dividends	\$ 58,482	\$ 49,625
Net realized and unrealized gains (losses)	741,893	(17,196)
Mineral interest income	39,729	56,544
Change in value of beneficial interest in charitable trust	240,051	(13,050)
Investment fees	(21,007)	(19,994)
	<u>\$ 1,059,148</u>	<u>\$ 55,929</u>

Hope Cottage, Inc.
Notes to Financial Statements

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).

	Beneficial Interest in Charitable Trust	Mineral Interest	Total
Balance at December 31, 2017	\$1,001,080	\$ 100,245	\$1,101,325
Change in value	(13,050)	48,730	35,680
Balance at December 31, 2018	988,030	148,975	1,137,005
Distributions	(50,000)	-	(50,000)
Change in value	240,051	36,446	276,497
Balance at December 31, 2019	\$1,178,081	\$ 185,421	\$1,363,502
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			
		2019	2018
		\$ 276,497	\$ 35,680

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.

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 asset 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 \$11,750 and \$9,880 were made during the years ended December 31, 2019 and 2018, respectively.

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Notes to Financial Statements

5. Property and Equipment

Property and equipment at December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 812,244	\$ 812,244
Building and improvements	2,977,599	2,977,599
Furniture and equipment	118,624	118,624
Computer hardware and software	43,250	43,250
Website	<u>34,823</u>	<u>34,823</u>
	3,986,540	3,986,540
Accumulated depreciation	<u>(409,198)</u>	<u>(314,506)</u>
Total	<u>\$ 3,577,342</u>	<u>\$ 3,672,034</u>

Depreciation expense totaled \$94,692 and \$104,397 for the years ended December 31, 2019 and 2018, respectively.

6. Adoption Fee Revenue

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

	<u>2019</u>	<u>2018</u>
Adoption fees paid in advance, beginning of year	\$ 90,000	\$ 80,000
Revenue recognized that was included in adoption fees at the beginning of the year	(70,000)	(80,000)
Increase in adoption fees due to cash received during the period	<u>90,000</u>	<u>90,000</u>
Adoption fees paid in advance, end of year	<u>\$ 110,000</u>	<u>\$ 90,000</u>

7. 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, 2019 and 2018 totaled \$16,849 and \$18,129, respectively.

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Notes to Financial Statements

8. Net Assets

Net assets with donor restrictions are available for the following programs or periods as of December 31:

	<u>2019</u>	<u>2018</u>
Education and time	\$ 140,000	\$ 125,000
Tuition, tutoring and other education needs	<u>1,177,431</u>	<u>978,157</u>
	<u>\$ 1,317,431</u>	<u>\$ 1,103,157</u>

Net assets with donor restrictions at December 31, 2019 and 2018 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, 2019 and 2018 totaled \$165,777 and \$134,873, respectively.

9. 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>2019</u>	<u>2018</u>
Cash	\$ 439,796	\$ 500,083
Accounts receivable	80,367	124,325
Pledges receivable	3,548	17,018
Investments	3,825,094	3,245,748
Beneficial interest in charitable trust	<u>1,178,081</u>	<u>988,030</u>
Total financial assets	5,526,886	4,875,204
Less amounts not available to management:		
Beneficial interest in		
Stemmons Kepler Charitable Trust	<u>(1,178,081)</u>	<u>(988,030)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,348,805</u>	<u>\$ 3,887,174</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, 2019 and 2018, average \$158,000 and \$185,000, respectively, per month. The Organization manages its financial assets to meet its operating expenditures, liabilities and other obligations as they come due.

Hope Cottage, Inc.
Notes to Financial Statements

10. Subsequent Events

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity in the north central Texas area. Due to the pandemic, the Organization experienced losses in its investment portfolio, none of which were determined to be other than temporary. Given the uncertainty of the spread of the coronavirus, the related financial impact to the Organization, if any, cannot be determined at this time.

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