ARMS OF HOPE

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018
with Report of Independent Auditors

ARMS OF HOPE

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

Table of Contents

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Arms of Hope

We have audited the accompanying consolidated financial statements of Arms of Hope which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended June 30, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arms of Hope as of June 30, 2019 and 2018, and the results of their activities and their cash flows for the years then ended in conformity with GAAP.

Whitley Penn LLP

Dallas, Texas
December 26, 2019

ARMS OF HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018
Assets		
Cash and cash equivalents	$ 548,177	$ 281,973
Other assets	434,023	411,610
Beneficial interests in charitable remainder annuity trusts	-	798,298
Investments, at fair value	23,952,976	23,208,286
Investments, other	31,935	31,935
Contributed assets	4,500	126,693
Property and equipment, net of accumulated depreciation	11,305,348	11,413,072
Total assets	$ 36,276,959	$ 36,271,867
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 210,599	$ 184,862
Accrued expenses	312,252	224,414
Deferred compensation	130,354	152,909
Liability under charitable remainder annuity trusts	-	317,789
Charitable gift annuities	868,467	911,014
Total liabilities	1,521,672	1,790,988
Commitments and contingencies		
Net assets:		
Without donor restrictions	33,561,036	33,286,628
With donor restrictions	1,194,251	1,194,251
Total net assets	34,755,287	34,480,879
Total liabilities and net assets	$ 36,276,959	$ 36,271,867

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Public support:			
Contributions - individuals	$ 1,747,332	$ -	$ 1,747,332
Contributions - congregations	800,219	-	800,219
Contributions - special gifts	1,449,192	-	1,449,192
Special events	416,380	-	416,380
Non-cash contributions	663,821	-	663,821
Total public support	5,076,944	-	5,076,944
Revenue:			
Grocery revenue	70,501	-	70,501
Thrift store, net	2,497,899	-	2,497,899
Resident support fees assistance	159,996	-	159,996
Oil and gas income	621,662	-	621,662
Investment income, net of expenses	1,258,190	-	1,258,190
Change in value of split-interest agreements	360,336	-	360,336
Gain on sale of assets	475,650	-	475,650
Miscellaneous income	31,049	-	31,049
Total revenue	5,475,283	-	5,475,283
Total support and revenue	10,552,227	-	10,552,227
Expenses:			
Program services			
Resident care	2,550,682	-	2,550,682
Together program	3,845,948	-	3,845,948
Daycare	776,573	-	776,573
College and career	383,768	-	383,768
Outreach Ministries	897,304	-	897,304
Total program expense	8,454,275	-	8,454,275
Supporting services:			
General and administrative	773,089	-	773,089
Public relations and development	1,050,454	-	1,050,454
Total supporting services	1,823,544	-	1,823,544
Total expenses	10,277,819	-	10,277,819
Change in net assets	274,408	-	274,408
Net assets beginning of year	33,286,628	1,194,251	34,480,879
Net assets end of year	$ 33,561,036	$ 1,194,251	$ 34,755,287

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Public support:			
Contributions - individuals	$ 1,761,009	$ -	$ 1,761,009
Contributions - congregations	698,588	-	698,588
Contributions - special gifts	1,230,012	-	1,230,012
Special events	243,685	-	243,685
Non-cash contributions	713,431	-	713,431
Total public support	4,646,725	-	4,646,725
Revenue:			
Grocery revenue	73,684	-	73,684
Thrift store, net	2,315,729	-	2,315,729
Resident support fees assistance	177,842	-	177,842
Oil and gas income	1,550,367	-	1,550,367
Interest and dividend investment income	473,077	-	473,077
Unrealized loss on investments	(1,206,910)	-	(1,206,910)
Realized loss on investments	2,255,282	-	2,255,282
Change in value of split-interest agreements	144,870	-	144,870
Gain on sale of assets	250	-	250
Miscellaneous income	23,034	-	23,034
Total revenue	5,807,225	-	5,807,225
Total support and revenue	10,453,950	-	10,453,950
Expenses:			
Program services	8,290,531	-	8,290,531
Supporting services:			
General and administrative	544,396	-	544,396
Public relations and development	873,697	-	873,697
Total supporting services	1,418,093	-	1,418,093
Total expenses	9,708,624	-	9,708,624
Change in net assets from activities	745,326	-	745,326
Other changes in net assets:			
Net assets released from restrictions	755,000	(755,000)	755,000
Contribution of Forest Dale	5,501,410	-	5,501,410
Changes in net assets	7,001,736	(755,000)	6,246,736
Net assets beginning of year	26,284,892	1,949,251	28,234,143
Net assets end of year	$ 33,286,628	$ 1,194,251	$ 34,480,879

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

	Program Services						Supporting Services			
	Resident Care	**Together Program**	**Daycare**	**College and Career**	**Outreach Ministries**	**Total Program Services**	**General and Administrative**	**Public Relations and Development**	**Total Supporting Services**	**Total**
Personnel costs	$ 1,284,830	$ 2,011,718	$ 643,132	$ 136,129	$ 509,566	$ 4,585,375	$ 308,423	$ 581,389	$ 889,812	$ 5,475,187
Insurance	68,759	145,338	6,267	22,285	1,072	243,720	3,466	8,861	12,328	256,048
Depreciation	286,639	362,362	35,977	27,868	83	712,929	14,664	123	14,787	727,716
Facility and maintenance	162,592	391,027	23,716	52,800	25,779	655,913	11,395	104,359	115,754	771,667
Utilities	188,565	160,864	27,073	25,787	-	402,289	5,905	1,395	7,300	409,589
Education	4,886	4,693	20	21,975	220	31,793	-	-	-	31,793
Information technology	43,416	69,891	3,954	6,105	7,749	131,116	13,581	61,424	75,006	206,121
Annuity related	-	-	-	-	-	-	169,559	-	169,559	169,559
Miscellaneous	64,205	30,692	999	1,306	2,545	99,747	26,513	41,160	67,673	167,420
Office expense	11,028	31,026	1,134	2,349	4,170	49,706	3,950	70,679	74,629	124,336
Professional services	49,187	42,016	2,449	4,257	15,788	113,698	201,282	18,902	220,184	333,882
Resident services	356,845	523,048	31,126	77,442	308,640	1,297,101	304	2,730	3,034	1,300,135
Travel and hospitality	29,729	73,275	726	5,465	21,693	130,888	14,046	159,432	173,478	304,366
Total expenses	$ 2,550,682	$ 3,845,948	$ 776,573	$ 383,768	$ 897,304	$ 8,454,275	$ 773,089	$ 1,050,454	$ 1,823,544	$ 10,277,819

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2019	2018
Cash flows from operating activities:		
Change in net assets	$ 274,408	$ 745,326
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	727,716	678,561
Gain on sale of assets	(475,650)	(250)
Net realized gain on investments	(70,524)	(2,255,282)
Unrealized (gain) loss on investments	(549,502)	1,206,910
Charitable remainder annuity trust	69,415	(21,573)
Change in liability under split-interest agreements	(360,336)	(29,135)
Changes in net assets and liabilities:		
Other assets	576,744	(17,346)
Accounts payable	25,737	65,227
Accrued expenses	87,838	(8,896)
Deferred compensation	(22,555)	(21,845)
Net cash provided by operating activities	283,291	341,697
Cash flows from investing activities:		
Purchases of investments	(487,217)	(5,255,478)
Proceeds from sale of investments	1,313,786	897,576
Proceeds from Forest Dale	-	5,501,410
Payments on charitable gift annuities	(190,350)	(154,296)
Payments on charitable remainder annuity trusts	(32,000)	(48,000)
Purchases of property and equipment	(621,306)	(1,118,724)
Net cash used in investing activities	(17,087)	(177,512)
Cash flows from financing activities:		
Borrowings from securities-based loan	718,370	1,521,661
Payments on securities-based loan	(718,370)	(1,681,661)
Net cash used in financing activities	-	(160,000)
Net increase in cash and cash equivalents	266,204	4,185
Cash and cash equivalents at beginning of year	281,973	277,788
Cash and cash equivalents at end of year	$ 548,177	$ 281,973
Supplemental cash flow information:		
Cash paid for interest	$ 18,439	$ 20,468

See accompanying notes to consolidated financial statements.

A. Nature of Activities

Arms of Hope (the "Organization") is a not-for-profit organization which was formed for the purpose of establishing, maintaining, and operating Christian homes for the care of children. The Organization has two wholly owned subsidiaries: Medina Children's Home ("Medina"), which was established in 1958 and operates a campus near Medina, Texas, and Boles Children's Home, Inc. ("Boles") which was established in 1924 and operates a campus in Quinlan, Texas. Boles Children's Home Realty Corporation is consolidated with Boles. Both campuses are supported principally by public contributions and supplemented with some agency support and investment income. The Organization's administrative offices are located in Medina, Texas.

B. Summary of Significant Accounting Policies

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its subsidiaries, all of which are wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses related to amounts in excess of FDIC limits.

B. Summary of Significant Accounting Policies – continued

Investments

Investments in certificates of deposit, equity and debt securities as well as alternative investments, such as private equity funds, with readily determinable fair values are stated at fair value with realized and unrealized gains and losses included in the consolidated statements of activities of the respective period. Investments, other is an oil and gas interest which is recorded at the lower of cost or fair value. Fluctuations in fair value are recorded in the year in which they occur by adjusting the carrying value of such investments each month and recognizing net unrealized and realized gains and losses in the accompanying consolidated statements of activities.

Fair Value Measurements

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Observable inputs other than Level 1 which include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

Following is a description of the valuation methodologies used for the Organization's investments that are measured at fair value:

- <u>Cash Equivalents and Certificates of Depot</u> — Valued at the net asset value (NAV) per unit at year end.

B. Summary of Significant Accounting Policies – continued

Fair Value Measurements – continued

- Mutual Funds and Equities — Quoted market prices.

- Private Equity Funds — Valued using the valuation technique, this is, in its judgement, most appropriate in determining an investments fair value.

  For investments in private operating companies that have been classified within Level 3, the technique selection will typically involve the following: (i) management will use the price of a recent private transaction or a creditable private offer; (ii) if a recent transaction or private offer is not available, management will then generally use the market approach (and will often adjust the EBITDA from actual levels and/or use budget numbers); (iii) management will consider using other valuation metrics if deemed appropriate; or (iv) if none of the aforementioned approaches are available or meaningful, management will generally use the adjusted book value or discounted cash flow approach. Most of these approaches determine an enterprise value or a 100% equity value. From this, management will deduct certain amounts as considered appropriate (management promote, debt, other liabilities, etc.) to arrive at the Organization's equity value.

  Investments in private investment partnerships are valued, as a practical expedient, utilizing the net asset valuations provided by the underlying investment partnerships, without adjustment, when the net asset valuations of the investments are calculated (or adjusted by the Organization if necessary) in a manner consistent with GAAP for investment partnerships. The Organization applies the practical expedient to its investments in investment partnerships on an investment-by-investment basis, and consistently with the Organization's entire position in a particular investment, unless it is probable that the Organization will sell a portion of an investment at an amount different from the net asset valuation. If it is probable that the Organization will sell an investment at an amount different from the net asset valuation or in other situations where the practical expedient is not available, the Organization considers other factors in addition to the net asset valuation, such as features of the investment, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

The preceding methods described may produce fair value measurements that may not be indicative of net realizable value or reflective of future fair 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.

Split-Interest Agreements

The Organization is the beneficiary of, or holds a beneficial interest in various split-interest agreements which consist of charitable remainder annuity trusts and charitable gift annuities.

B. Summary of Significant Accounting Policies – continued

Trusts, Legacies, and Bequests

The Organization is the beneficiary under various wills and trust agreements, the total realizable amount of which cannot presently be determined. Such amounts are excluded from the accompanying consolidated financial statements until clear title is established and the ultimate realizable amount is reasonably determinable.

Property and Equipment

Property and equipment are stated at cost and depreciated over the estimated useful lives of the various assets using the straight-line method. Major renewals and improvements are capitalized while expenditures for maintenance and repairs are expensed as incurred. Assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reflected in the unrestricted revenues and gains (losses) in the accompanying consolidated statement of activities of the respective period. Assets which are donated and used by the Organization are recorded at their fair market value on the date received by the Organization. The estimated useful lives are as follows:

Buildings and improvements	4-50 years
Furniture and fixtures	5-10 years
Automotive equipment	3-7 years
Other equipment	5-30 years

Donated Assets and Services

Donated marketable securities and other non-cash donations are recorded at their estimated fair values, as determined by management, at the date of donation.

Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization pays for most services requiring specialized services. However, a number of individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program functions and various other activities that are not recognized as contributions in the consolidated financial statements, because the recognition criteria under GAAP were not met.

Thrift Shop Revenue

The Organization gathers and delivers donated items to a network of thrift stores and is reimbursed for the cost of collecting and delivering these items and receives a percentage of gross sales from a retail contract partnership and is earned upon sale.

B. Summary of Significant Accounting Policies – continued

Contributions

Contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities of the respective period as net assets released from restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Net Assets

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

> Without Donor Restriction — net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. There were approximately $2,000,000 and $0 of net assets with board designations as of June 30, 2019 and 2018, respectively.
>
> With Donor Restriction — net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Some donor restricted net assets require that the principal be invested in perpetuity. Income and appreciation in the value of these funds are restricted for specified purposes and are reported in the accompanying statements of activities as restricted investment income as earned until spent.

Functional Expenses

Certain categories of expenses are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, travel, information technology, rent, and other various expenses, which are allocated on the basis of estimates of time and effort. Directly identifiable expenses are charged to either program services or supporting activities.

Endowment Funds

The Organization operates under an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") since the Texas State Legislature enacted UPMIFA on September 1, 2007 ("TUPMIFA"). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

B. Summary of Significant Accounting Policies – continued

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except to the extent that they have unrelated business income. There was no material unrelated business income reflected in the accompanying consolidated financial statements for the years ended June 30, 2019 and 2018. Accordingly, no provision for income taxes has been provided in the accompanying consolidated financial statements.

GAAP prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain income tax positions taken or expected to be taken in income tax returns. Management believes that it has not taken a tax position that, if challenged, would have a material effect on the Organization's consolidated financial statements. The Organization files Form 990 in the United States federal jurisdiction within the United States and no tax returns are currently under examination by any tax authorities.

Fair Value of Financial Instruments

The financial instruments recorded in the consolidated statements of financial position include other assets, accounts payable and accrued expenses. Due to their short-term maturities, the carrying amounts of these items are believed to approximate fair market values. The carrying value of the notes payable approximates fair value since these instruments bear a market rate of interest.

Management evaluates credit risk for all financial instruments based on the nature of the transaction. The Organization has credit exposure within the investment portfolio; however, management believes they have mitigated this risk by diversifying the investments in which the Organization invests based on such criteria as industry, geographic region, length of maturity, and credit ratings.

Impairment of Long-Lived Assets

Depreciable long-lived assets that are held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. No impairments were recorded in the years ended 2019 and 2018 and assets being held for disposal at June 30, 2019 and 2018, were $4,500 and $4,500, respectively.

New Accounting Pronouncement

During 2019 the Organization adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

B. Summary of Significant Accounting Policies – continued

New Accounting Pronouncement – continued

The ASU has been applied retrospectively to all periods presented other than the presentation of the consolidated statement of functional expenses and disclosures related to availability and liquidity which are only required as of and for the year ended June 30, 2019, which is the year of adoption.

C. Availability and Liquidity

The following represents the Organization's financial assets available to meet cash needs for general expenditures within one year of June 30, 2019:

Financial assets, at year end:	
Cash and cash equivalents	$ 548,177
Other assets (accounts receivable)	50,581
Other assets (notes receivable)	136,614
Investments, at fair value	23,952,976
Total financial assets at year end	24,688,348
Less amounts not available for general expenditures within one year:	
Other assets (notes receivable, long term)	(136,614)
Investments, at fair value, with donor-imposed endowment restrictions where the donor has stipulated that the funds be maintained in perpetuity	(1,194,251)
Investments, at fair value, Level 3 illiquid	(545,483)
Financial assets available to meet cash needs for general expenditures within one year	$ 22,812,000

The Organization is substantially supported by contributions from individuals, churches and businesses that are not subject to restrictions. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be liquid and available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization also has a credit facility with their investment advisor they can use for short term cash needs.

D. Investments

Investments at fair value refer to those amounts held at third party financial institutions and are reported at fair value. Unrealized gains or losses are recorded each year to adjust to fair value. Realized and unrealized gains or losses are determined by comparison of cost to proceeds or market, respectively.

D. Investments – continued

A summary of investments, at fair value, at June 30, 2019, is as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash equivalents	$ 995,224	$ 995,224	$ -
Certificates of deposit	2,000,000	2,010,860	10,860
Mutual funds	13,822,789	14,265,124	442,335
Equities	5,315,526	6,136,285	820,759
Private equity funds	613,873	545,483	(68,390)
Total investments	$ 22,747,412	$ 23,952,976	$ 1,205,564

A summary of investments, at fair value, at June 30, 2018, is as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash equivalents	$ 936,672	$ 936,672	$ -
Certificates of deposit	2,250,000	2,249,323	(677)
Mutual funds	10,460,029	10,601,785	141,756
Equities	8,651,201	9,166,184	514,983
Private equity funds	254,322	254,322	-
Total investments	$ 22,552,224	$ 23,208,286	$ 656,062

Investment, other, represents an oil and gas interest which is recorded at cost of $31,935 at both June 30, 2019 and 2018.

Investments in private equity funds have $2,209,914 and $0 of unfunded commitments as of June 30, 2019 and 2018, respectively.

E. Fair Value of Investments

The following is a summary of the estimated fair value of the Organization's investments at June 30, 2019:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 995,224	$ -	$ -	$ 995,224
Certificates of deposit	2,010,860	-	-	2,010,860
Mutual funds	14,265,124	-	-	14,265,124
Equities	6,136,285	-	-	6,136,285
Private equity funds	-	-	545,483	545,483
Total investments, at fair value	$23,407,493	$ -	$ 545,483	$23,952,976

The following is a summary of the estimated fair value of the Organization's investments at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 936,672	$ -	$ -	$ 936,672
Certificates of deposit	2,249,323	-	-	2,249,323
Mutual funds	10,601,785	-	-	10,601,785
Equities	9,166,184	-	-	9,166,184
Private equity funds	-	-	254,322	254,322
Total investments, at fair value	$22,953,964	$ -	$ 254,322	$23,208,286

The following table summarizes the changes in the fair value of the Organization's level 3 investments for the years ended June 30:

	2019	2018
Balance, beginning of year	$ 254,322	$ -
Contributions	478,006	257,913
Distributions	(122,046)	-
Net realized and unrealized loss on investments	(64,799)	-
Transfers, net	-	(3,591)
Balance, end of year	$ 545,483	$ 254,322

F. Contributed Assets

Contributed assets consist of contributed real estate, which is real property interests not used in the activities of the Organization. For some items, a value of $1 is recorded since a value was not available.

F. Contributed Assets – continued

Contributed real estate was approximately $5,000 and $127,000 as of June 30, 2019 and 2018, respectively. During the year ended June 30, 2019, the Organization sold contributed real estate for a gain of $133,000, which is included in gain on sale of assets on the consolidated statement of activates.

G. Charitable Remainder Annuity Trusts

The Organization was the remainder beneficiary of an irrevocable charitable trust. Under charitable remainder annuity trusts, donors establish and fund a trust with specific distributions to be made to beneficiaries over the trust's terms. At the end of the trust's term, the remaining assets are available for the Organization's use. The Organization was the trustee for the charitable remainder annuity trust and recorded the assets at fair value and the related liabilities at the discounted present value of the estimated future cash flows. The trust terminated in the current year due to the passing of the beneficiary. The Organization held no charitable remainder annuity trusts as of June 30, 2019.

The discount rate used by the Organization to calculate the present value of the estimated future payments at June 30, 2018, was 3.4%, the IRC Section 7520 charitable federal midterm rate. The actuarial assumptions used in calculating the present value included the life expectancy of the beneficiary, the weighted average of which was 6.6 years at June 30, 2018. The trust is included in beneficial interests in charitable remainder annuity trusts in the accompanying consolidated statement of financial position at June 30, 2018, in the amount of $798,298. The present value of the estimated future payments to beneficiaries at June 30, 2018, was $317,789, and is included in liabilities under charitable remainders annuity trusts on the accompanying consolidated statement of financial position as of June 30, 2018.

On an annual basis, the Organization revalues the liabilities to make distributions to the designated beneficiaries based on life expectancy and the discount rate based on the IRC Section 7520. These revaluations are reflected in the consolidated statements of activities as change in the value of split-interest agreements.

H. Charitable Gift Annuities

The Organization receives charitable gift annuities from time to time. Under charitable gift annuities donors transfer assets to beneficiaries in exchange for a promise to pay an annuity to the donor. The Organization records the assets at fair value and the related liabilities at the discounted present value of the estimated future cash flows. The discount rate used by the Organization to calculate the present value of the estimated future payments at June 30, 2019 and 2018, was 2.8% and 3.4%, the IRC Section 7520 charitable federal midterm rates, respectively.

The actuarial assumptions used in calculating the present value include the life expectancy of the beneficiaries, the weighted average of which was 6.7 and 6.8 years at June 30, 2019 and 2018, respectively. Charitable gift annuity assets are held as general assets and are available for unrestricted use. The related liabilities at June 30, 2019 and 2018, were $868,467 and $911,014, respectively.

I. Property and Equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Land	$ 1,275,524	$ 1,275,524
Buildings and improvements	19,525,967	19,238,537
Furniture and fixtures	172,203	172,203
Automotive equipment	1,268,115	1,359,008
Construction in progress	173,566	331,818
Other equipment	2,146,498	1,896,678
	24,561,873	24,273,768
Less accumulated depreciation	(13,256,525)	(12,860,696)
	$ 11,305,348	$ 11,413,072

J. Securities-Based Loan and Notes Payable

On March 12, 2014, the Organization entered into a securities-based loan agreement with Morgan Stanley Bank, N.A. ("Morgan Stanley"). The agreement is collateralized by certain designated investments held by Morgan Stanley, and the maximum availability under the facility is determined by Morgan Stanley from time to time based primarily on the value of the investments pledged as collateral.

As of June 30, 2019 and 2018, the total investments that serve as collateral under the agreement were approximately $20,400,000 and $20,000,000, respectively. As of June 30, 2019, the securities-based loan bears interest at 1% plus 1-month LIBOR, which was 3.4%. As of June 30, 2018 the securities-based loan bore interest at 2.5% plus 1-month LIBOR, which was 4.6%. The loan has no set maturity date. Payments of amounts advanced and accrued interest are made periodically, and Morgan Stanley may demand full or partial payment at their discretion. As of June 30, 2019 and 2018, the outstanding balance under the securities-based loan agreement was $0.

As of June 30, 2019, no future maturities were due on notes payable as all notes were fully paid off during the current year.

K. Commitments and Contingencies

The Organization leases equipment under non-cancelable operating leases that expire in various years through fiscal 2025. Rent expense for each of the years ended June 30, 2019 and 2018, was approximately $18,000.

K. Commitments and Contingencies – continued

Future minimum lease payments consist of the following at June 30, 2019:

2020	$	24,965
2021		15,389
2022		14,302
2023		11,040
2024		10,580
Thereafter		920
	$	77,196

From time to time, the Organization is involved in various lawsuits and claims arising in the normal course of business. In management's opinion, the ultimate outcome of these items will not have a material adverse effect on the Organization's consolidated financial position and results of activities.

L. Endowment Fund

As of June 30, 2019 and 2018, the Organization has a donor-restricted endowment fund which provides for operations of the Organization. This endowment fund is classified within net assets with donor restrictions on the accompanying consolidated statements of financial position. The Organization has approximately $2,000,000 and $0 of board-designated endowments, as of June 30, 2019 and 2018, respectively.

The Organization's management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment fund absent explicit donor stipulations to the contrary. Accordingly, the Organization classifies the original value of all endowment gifts as net assets with donor restrictions. Accumulated net earnings on endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure in accordance with any applicable donor designations and in a manner consistent with the standard of prudence prescribed by the UPMIFA. The Organization had no accumulated earnings on the donor-restricted endowment fund for the years ended June 30, 2019 and 2018, as all earnings had been appropriated for operations.

L. Endowment Fund – continued

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

The Organization's primary investment objectives are growth with income and preservation of capital. Management defines risk as the probability of not meeting these objectives. Accordingly, endowment assets are invested in a manner that is intended to minimize risk.

The Organization has a policy of appropriating for distribution each year a maximum of 5% on its average balance on endowment fund principal at the end of the previous three fiscal years. Any deficiencies in the actual rate above 5% will be advanced by the Organization's net assets without donor restrictions. Future earnings on endowments will be used to repay the advances from such funds.

Changes in donor-restricted endowment net assets for the years ended June 30, 2019 and 2018, are as follows:

Donor-restricted endowment net assets at June 30, 2017	$ 1,194,251
Investment income, net	18,657
Net appreciation	71,810
Amount appropriated for expenditure	(90,467)
Donor-restricted endowment net assets at June 30, 2018	1,194,251
Investment income, net	25,412
Net appreciation	39,400
Amount appropriated for expenditure	(64,812)
Donor-restricted endowment net assets at June 30, 2019	$ 1,194,251

M. Retirement Plans

The Organization adopted a 401(k) plan effective December 15, 2007, which covers substantially all of its employees. Once eligibility requirements are met, employees may voluntarily contribute a percentage of their gross salaries into the plan. The Organization may make a discretionary matching contribution of up to 7% of gross salary. Employees are vested in matching funds after five years of service. Retirement plan expense for the matching contribution for the years ended June 30, 2019 and 2018, totaled approximately $208,000 and $201,000, respectively.

During the year ended June 30, 1997, a deferred compensation plan under Section 457 of the IRC was adopted for another key employee, which allows for monthly payments of $2,644 commencing February 2009. This plan was subsequently adjusted as of January 1, 2006. The present value of this liability, calculated to be approximately $130,000 and $152,000 at June 30, 2019 and 2018, respectively, is reported in the consolidated statements of financial position as part of the deferred compensation liability.

N. Related Party Transactions

A member of the Board of Directors administers the health plan and life insurance for all of the Organization’s employees and dependents.

The spouse of a board member is employed by the Organization in a marketing and development function and reports to the Chief Executive Officer.

The Organization has and may continue to purchase vehicles from an auto dealership of a Director.

The Organization has and may continue to use the legal services of a Director’s legal firm.

O. Forest Dale

Effective August 4, 2017, the articles of incorporation of Forest Dale, Inc., an entity that was not previously consolidated as both control and an economic interest did not exist, were amended to include a provision that in the event of the dissolution or liquidation of the entity, that the assets of Forest Dale, Inc. will be distributed to the Organization. Additionally, the purpose of Forest Dale, Inc. included in the articles of incorporation was amended to support the Organization. These amendments resulted in the Organization having both an economic interest and control of Forest Dale, Inc.; therefore, the entity was consolidated by the Organization effective August 4, 2017.

Forest Dale, Inc. held certain real estate assets which were sold on June 30, 2017, for proceeds of approximately $4.9 million. As of August 4, 2017, Forest Dale, Inc. had approximately $5.5 million in total net assets which were transferred into the accounts of the Organization at that date.

P. Subsequent Events

In preparing the consolidated financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through December 26, 2019, the date the consolidated financial statements were available for issuance.