

ARMS OF HOPE

CONSOLIDATED FINANCIAL STATEMENTS

**Years Ended June 30, 2021 and 2020
with Report of Independent Auditors**

ARMS OF HOPE
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

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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 and subsidiaries which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 and subsidiaries as of June 30, 2021 and 2020, and the results of their activities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Dallas, Texas
November 16, 2021

ARMS OF HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 2,827,815	\$ 4,049,248
Investments, at fair value	35,407,736	24,430,119
Investments, other	31,935	31,935
Other assets	537,271	510,508
Property and equipment, net of accumulated depreciation	<u>11,353,585</u>	<u>11,334,924</u>
Total assets	<u>\$ 50,158,342</u>	<u>\$ 40,356,734</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 290,765	\$ 182,004
Accrued expenses	307,060	254,383
Deferred compensation	78,954	105,095
Charitable gift annuities	<u>672,961</u>	<u>935,184</u>
Total liabilities	1,349,740	1,476,666
Commitments and contingencies		
Net assets:		
Without donor restrictions	47,614,351	37,685,817
With donor restrictions	<u>1,194,251</u>	<u>1,194,251</u>
Total net assets	<u>48,808,602</u>	<u>38,880,068</u>
Total liabilities and net assets	<u>\$ 50,158,342</u>	<u>\$ 40,356,734</u>

See accompanying notes to consolidated financial statements.

ARMS OF HOPE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Public support:			
Contributions - individuals	\$ 1,568,556	\$ -	\$ 1,568,556
Contributions - congregations	677,430	-	677,430
Contributions - special gifts	6,498,837	-	6,498,837
Contributions - conditional grants	674,406	-	674,406
Special events	160,485	-	160,485
Non-cash contributions	<u>1,277,023</u>	-	<u>1,277,023</u>
Total public support	10,856,737	-	10,856,737
Revenue:			
Grocery revenue	68,760	-	68,760
Thrift store, net	2,293,624	-	2,293,624
Resident support fees assistance	53,971	-	53,971
Oil and gas income	548,760	-	548,760
Investment income, net of expenses	5,394,674	-	5,394,674
Change in value of split-interest agreements	282,501	-	282,501
Gain on sale of assets	<u>21,301</u>	-	<u>21,301</u>
Total revenue, net	<u>8,663,591</u>	-	<u>8,663,591</u>
Total support and revenue	19,520,328	-	19,520,328
Expenses:			
Program services			
Resident care	2,074,680	-	2,074,680
Together program	4,078,604	-	4,078,604
Daycare	664,592	-	664,592
College and career	361,374	-	361,374
Outreach ministries	<u>791,457</u>	-	<u>791,457</u>
Total program expense	<u>7,970,707</u>	-	<u>7,970,707</u>
Supporting services:			
General and administrative	853,394	-	853,394
Public relations and development	<u>767,693</u>	-	<u>767,693</u>
Total supporting services	<u>1,621,087</u>	-	<u>1,621,087</u>
Total expenses	<u>9,591,794</u>	-	<u>9,591,794</u>
Change in net assets	9,928,534	-	9,928,534
Net assets beginning of year	<u>37,685,817</u>	<u>1,194,251</u>	<u>38,880,068</u>
Net assets end of year	<u>\$ 47,614,351</u>	<u>\$ 1,194,251</u>	<u>\$ 48,808,602</u>

See accompanying notes to consolidated financial statements.

ARMS OF HOPE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Public support:			
Contributions - individuals	\$ 1,861,504	\$ -	\$ 1,861,504
Contributions - congregations	655,341	-	655,341
Contributions - special gifts	2,015,142	-	2,015,142
Contributions - conditional grants	982,700	-	982,700
Special events	353,819	-	353,819
Non-cash contributions	<u>520,251</u>	<u>-</u>	<u>520,251</u>
Total public support	6,388,757	-	6,388,757
Revenue:			
Grocery revenue	92,440	-	92,440
Thrift store, net	2,013,909	-	2,013,909
Resident support fees assistance	89,618	-	89,618
Oil and gas income	3,332,028	-	3,332,028
Investment income, net of expenses	1,963,459	-	1,963,459
Change in value of split-interest agreements	(41,296)	-	(41,296)
Gain on sale of assets	6,050	-	6,050
Miscellaneous income	<u>28,646</u>	<u>-</u>	<u>28,646</u>
Total revenue, net	<u>7,484,854</u>	<u>-</u>	<u>7,484,854</u>
Total support and revenue	13,873,611	-	13,873,611
Expenses:			
Program services			
Resident care	2,340,878	-	2,340,878
Together program	3,901,651	-	3,901,651
Daycare	756,949	-	756,949
College and career	322,900	-	322,900
Outreach ministries	<u>870,302</u>	<u>-</u>	<u>870,302</u>
Total program expense	<u>8,192,680</u>	<u>-</u>	<u>8,192,680</u>
Supporting services:			
General and administrative	810,455	-	810,455
Public relations and development	<u>745,695</u>	<u>-</u>	<u>745,695</u>
Total supporting services	<u>1,556,150</u>	<u>-</u>	<u>1,556,150</u>
Total expenses	<u>9,748,830</u>	<u>-</u>	<u>9,748,830</u>
Changes in net assets	4,124,781	-	4,124,781
Net assets beginning of year	<u>33,561,036</u>	<u>1,194,251</u>	<u>34,755,287</u>
Net assets end of year	<u>\$ 37,685,817</u>	<u>\$ 1,194,251</u>	<u>\$ 38,880,068</u>

See accompanying notes to consolidated financial statements.

ARMS OF HOPE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Program Services					Supporting Services			Total	
	Resident Care	Together Program	Daycare	College and Career	Outreach Ministries	Total Program Services	General and Administrative	Public Relations and Development		Total Supporting Services
Personnel costs	\$ 1,018,762	\$ 2,178,258	\$ 553,557	\$ 130,876	\$ 481,354	\$ 4,362,807	\$ 321,572	\$ 510,541	\$ 832,113	\$ 5,194,920
Insurance	69,162	148,786	8,507	13,802	989	241,246	40,578	5,302	45,880	287,126
Depreciation	323,027	408,629	36,150	27,365	-	795,171	14,460	-	14,460	809,631
Facility and maintenance	123,289	305,661	14,047	34,137	1,390	478,524	776	80,976	81,752	560,276
Utilities	143,427	297,304	22,343	29,444	2,002	494,519	11,696	2,066	13,762	508,281
Education	1,439	2,077	-	2,793	-	6,310	-	-	-	6,310
Information technology	18,358	52,555	6,581	5,161	9,028	91,682	19,035	72,577	91,612	183,294
Annuity related	-	-	-	-	-	-	162,056	-	162,056	162,056
Miscellaneous	16,684	3,676	-	369	319	21,047	11,652	7,445	19,097	40,144
Office expense	5,584	15,489	831	1,145	4,845	27,893	23,888	34,011	57,900	85,793
Professional services	11,300	36,731	-	2,740	10,949	61,720	244,545	16,184	260,728	322,448
Resident services	331,501	602,617	20,544	111,831	271,498	1,337,990	1,267	1,226	2,493	1,340,483
Travel and hospitality	12,148	26,821	2,031	1,713	9,085	51,797	1,869	37,364	39,234	91,031
Total expenses	\$ 2,074,680	\$ 4,078,604	\$ 664,592	\$ 361,374	\$ 791,457	\$ 7,970,707	\$ 853,394	\$ 767,693	\$ 1,621,087	\$ 9,591,794

See accompanying notes to consolidated financial statements.

ARMS OF HOPE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program Services					Supporting Services				Total
	Resident Care	Together Program	Daycare	College and Career	Outreach Ministries	Total Program Services	General and Administrative	Public Relations and Development	Total Supporting Services	
Personnel costs	\$ 1,237,720	\$ 2,026,175	\$ 642,482	\$ 124,182	\$ 467,263	\$ 4,497,823	\$ 304,316	\$ 445,238	\$ 749,554	\$ 5,247,377
Insurance	72,316	157,849	3,775	13,927	1,633	249,499	8,549	6,455	15,004	264,503
Depreciation	299,452	377,288	37,960	29,331	7	744,037	15,207	10	15,217	759,254
Facility and maintenance	107,033	250,364	11,729	31,584	1,426	402,136	4,092	58,353	62,445	464,581
Utilities	145,548	272,747	29,736	25,569	1,131	474,732	15,225	1,911	17,135	491,867
Education	2,783	1,643	-	4,437	14,950	23,813	-	-	-	23,813
Information technology	17,229	38,512	6,016	3,683	8,498	73,937	26,077	78,328	104,405	178,342
Annuity related	-	-	-	-	-	-	155,716	-	155,716	155,716
Miscellaneous	21,727	16,345	24	1,642	11	39,749	4,183	40,236	44,418	84,167
Office expense	14,621	20,115	914	1,512	4,867	42,029	21,688	50,214	71,903	113,932
Professional services	24,197	7,631	-	1,779	11,179	44,786	204,923	16,524	221,447	266,233
Resident services	379,599	695,377	22,785	82,693	354,026	1,534,481	8,610	949	9,558	1,544,039
Travel and hospitality	18,656	37,604	1,529	2,560	5,309	65,658	41,869	47,478	89,347	155,004
Total expenses	\$ 2,340,878	\$ 3,901,651	\$ 756,949	\$ 322,900	\$ 870,302	\$ 8,192,680	\$ 810,455	\$ 745,695	\$ 1,556,150	\$ 9,748,830

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 9,928,534	\$ 4,124,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	809,631	759,254
Gain on sale of assets	(21,301)	(6,050)
Net realized gain on investments	(1,265,157)	(150,886)
Unrealized (gain) loss on investments	(3,502,665)	(1,003,397)
Change in liability under split-interest agreements	(282,501)	41,296
Changes in net assets and liabilities:		
Other assets	(5,462)	(65,935)
Accounts payable	108,761	(28,595)
Accrued expenses	72,955	(32,448)
Deferred compensation	(26,141)	(25,259)
Net cash provided by operating activities	5,816,654	3,612,761
Cash flows from investing activities:		
Purchases of investments	(6,660,085)	(260,409)
Proceeds from sale of investments	611,514	1,093,265
Payments on charitable gift annuities	(161,224)	(155,716)
Purchases of property and equipment	(828,292)	(788,830)
Net cash used in investing activities	(7,038,087)	(111,690)
Net (decrease) increase in cash and cash equivalents	(1,221,433)	3,501,071
Cash and cash equivalents at beginning of year	4,049,248	548,177
Cash and cash equivalents at end of year	\$ 2,827,815	\$ 4,049,248

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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 cost. 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.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Fair Value Measurements – continued

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

- Money Market Funds and Certificates of Deposit — Valued at the net asset value (NAV) per unit at year end.
- Mutual Funds and Equities — Quoted market prices.
- Private Equity Funds — Valued using the valuation technique, that is, in its judgement, most appropriate in determining an investment's 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.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Split-Interest Agreements

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

Under charitable gift annuities, donors transfer assets to beneficiaries in exchange for a promise to pay an annuity to the donor. Under the terms of the gift annuity, the Organization serves as the trustee of the annuity and is to receive all assets remaining in the annuity when the last annuitant dies. The Organization records the assets in these gift annuities at fair value and a related liability for the expected future payments to the annuitants at the discounted present value of the estimated future cash flows. Annually, an adjustment is made between the liability and the net assets to record the gain or loss due to re-computation of the liability based on revised life expectancy of the annuitants. The Organization uses the actuarial tables appropriate for charitable gift annuities, number of lives covered and age of the income beneficiaries in making the annual adjustment. The discount rate used to make the annual adjustment was 1.22% and 0.52% for the years ended June 30, 2021 and 2020, respectively.

The fair value of those assets at June 30, 2021 and 2020 amounted to \$357,372 and \$672,332, respectively, and are included in investments in the accompanying consolidated statements of financial position.

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

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

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. Revenue is recognized when the performance obligation is satisfied, which is at the point in time when the donated items are delivered to the thrift shops. The transaction price is a negotiated rate per pound of donated items received, the Organization is also reimbursed for the cost of collecting and delivering these items

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 no such net assets with board designations as of both June 30, 2021 and 2020.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Net Assets – continued

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.

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, 2021 and 2020. 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.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

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 2021 and 2020 and assets being held for disposal at June 30, 2021 and 2020, were \$4,500 and \$4,500, respectively, which are included in other assets on the consolidated statement of financial position.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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:

	2021	2020
Financial assets, at year end:		
Cash and cash equivalents	\$ 2,827,815	\$ 4,049,248
Other assets (accounts receivable)	27,286	20,705
Other assets (notes receivable)	111,281	125,788
Investments, at fair value	35,407,736	24,430,119
Total financial assets at year end	38,374,118	28,625,860
Less amounts not available for general expenditures within one year:		
Other assets (notes receivable, long term)	(111,281)	(125,788)
Investments, at fair value, with donor-imposed endowment restrictions where the donor has stipulated that the funds be maintained in perpetuity	(1,194,251)	(1,194,251)
Investments, at fair value, Level 3 illiquid	(1,172,121)	(920,709)
Financial assets available to meet cash needs for general expenditures within one year	\$35,896,465	\$26,385,112

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.

A summary of investments, at fair value, at June 30, 2021, is as follows:

	Cost	Fair Value	Unrealized Appreciation
Money market funds	\$ 318,593	\$ 318,593	\$ -
Mutual funds	20,083,507	21,986,238	1,902,731
Equities	7,859,405	11,930,784	4,071,379
Private equity funds	1,022,730	1,172,121	149,391
Total investments	\$ 29,284,235	\$ 35,407,736	\$ 6,123,501

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

D. Investments – continued

A summary of investments, at fair value, at June 30, 2020, is as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 739,952	\$ 739,952	\$ -
Certificates of deposit	250,000	251,729	1,729
Mutual funds	12,789,408	13,266,883	477,475
Equities	7,472,088	9,250,846	1,778,758
Private equity funds	967,470	920,709	(46,761)
Total investments	<u>\$ 22,218,918</u>	<u>\$ 24,430,119</u>	<u>\$ 2,211,201</u>

Investment, other, represents an oil and gas interest which is recorded at cost of \$31,935 at both June 30, 2021 and 2020.

Investments in private equity funds have \$1,600,899 and \$1,702,101 of unfunded commitments as of June 30, 2021 and 2020, respectively.

E. Fair Value of Investments

The following is a summary of the estimated fair value of the Organization's investments at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 318,593	\$ -	\$ -	\$ 318,593
Mutual funds	21,986,238	-	-	21,986,238
Equities	11,930,784	-	-	11,930,784
Private equity funds	-	-	1,172,121	1,172,121
Total investments, at fair value	<u>\$34,235,615</u>	<u>\$ -</u>	<u>\$ 1,172,121</u>	<u>\$35,407,736</u>

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

E. Fair Value of Investments – continued

The following is a summary of the estimated fair value of the Organization’s investments at June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 739,952	\$ -	\$ -	\$ 739,952
Certificates of deposit	251,729	-	-	251,729
Mutual funds	13,266,883	-	-	13,266,883
Equities	9,250,846	-	-	9,250,846
Private equity funds	-	-	920,709	920,709
Total investments, at fair value	<u>\$23,509,410</u>	<u>\$ -</u>	<u>\$ 920,709</u>	<u>\$24,430,119</u>

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

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 920,709	\$ 545,483
Contributions	253,941	427,962
Distributions	(235,566)	(74,365)
Net realized and unrealized loss on investments	<u>233,038</u>	<u>21,629</u>
Balance, end of year	<u>\$ 1,172,121</u>	<u>\$ 920,709</u>

F. 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, 2021 and 2020, was 0.6%, 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 6.2 and 6.7 for the years at June 30, 2021 and 2020, respectively. Charitable gift annuity assets are held as general assets and are available for unrestricted use. The related liabilities at June 30, 2021 and 2020, were \$672,961 and \$935,184, respectively.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

G. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,275,524	\$ 1,275,524
Buildings and improvements	20,658,194	19,993,572
Furniture and fixtures	172,203	172,203
Automotive equipment	1,214,341	1,309,789
Construction in progress	344,272	227,638
Other equipment	2,306,717	2,318,084
	<u>25,971,251</u>	<u>25,296,810</u>
Less accumulated depreciation	<u>(14,617,666)</u>	<u>(13,961,886)</u>
	<u>\$11,353,585</u>	<u>\$11,334,924</u>

H. 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. During the current fiscal year the original securities-based loan agreement with Morgan Stanley was terminated and a new agreement was entered into with a different financial institution. The new agreement is also collateralized by the investments of the Organization, which are now held at a different financial institution, the credit limit is \$8,500,000 and bears interest at 2.14% plus 1-month LIBOR.

As of June 30, 2021 and 2020, the total investments that serve as collateral under the agreements were approximately \$34,200,000 and \$23,400,000, respectively. As of June 30, 2021, the new securities-based loan bears interest at 2.14% plus 1-month LIBOR, which was 0.07%. As of June 30, 2020, the Morgan Stanley securities-based loan bears interest at 2.14% plus 1-month LIBOR, which was 0.1825%. The loan has no set maturity date. Payments of amounts advanced and accrued interest are made periodically, and the financial institution may demand full or partial payment at their discretion. As of June 30, 2021 and 2020, the outstanding balance under the securities-based loan agreements was \$0.

As of June 30, 2021, no future maturities were due on notes payable as all notes were fully paid off during the current year.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

I. Commitments and Contingencies

The Organization leases equipment under non-cancelable operating leases that expire in various years through fiscal 2026. Rent expense for each of the years ended June 30, 2021 and 2020, was approximately \$29,000 and \$23,000, respectively.

Future minimum lease payments consist of the following at June 30, 2021:

2022	\$ 28,157
2023	27,070
2024	23,808
2025	23,808
2026	10,496
Thereafter	<u>-</u>
	<u>\$ 113,338</u>

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.

During 2021, the Organization entered into a grant agreement that consists of a forgivable loan from the government. The Organization would not be liable for the loan provided that all program requirements are met and the Organization is not otherwise in default of the loan terms or the grant contract June 30, 2021. At June 30, 2021, the balance on the loan was \$674,406.

Management believes that the conditions of the loan agreement have been met; therefore, the forgiveness of the loan was recorded as contributions – conditional grants on the consolidated statement of activities for the year ended June 30, 2021 and is not reflected on the statement of financial position as a liability.

During 2020, the Organization entered into a grant agreement that consists of a forgivable loan from the government with the affordability period ending during April 2022. The Organization would not be liable for the loan provided that all program requirements are met and the Organization is not otherwise in default of the loan terms or the grant contract June 30, 2020. At June 30, 2020, the balance on the loan was \$982,700.

Management believes that the conditions of the loan agreement have been met; therefore, the forgiveness of the loan was recorded as contributions – conditional grants on the consolidated statement of activities for the year ended June 30, 2020 and is not reflected on the statement of financial position as a liability. This loan was forgiven in full during the fiscal year ended June 30, 2020.

Federal grants and contracts may be subject to program compliance audits by the grantors or their representatives. Any disallowed costs, including amounts already collected, may constitute a liability of the Organization. The Organization believes they are in substantial compliance with such grant programs, and disallowed costs, if any, would not be significant.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

I. Commitments and Contingencies – continued

We have continued to evaluate the impact of the COVID-19 outbreak, which was declared a pandemic by the World Health Organization in March 2020, on our financial statements including the accompanying footnotes, including its impact on the nature of our operations, accounting estimates, vulnerability to significant concentrations, and subsequent event disclosures in accordance with ASC 275 – *Risks and Uncertainties*. We have additionally also contemplated the effect of the impact of the COVID-19 pandemic and the resulting economic decline in the assessment of the Organization’s ability to continue as a going concern for at least one year from the date of the issuance of the financial statements.

J. Endowment Fund

As of June 30, 2021 and 2020, 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’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, 2021 and 2020, as all earnings had been appropriated for operations.

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.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

J. Endowment Fund – continued

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, 2021 and 2020, are as follows:

Donor-restricted endowment net assets at July 1, 2019	\$ 1,194,251
Investment income, net	23,906
Net appreciation	66,953
Amount appropriated for expenditure	<u>(90,859)</u>
Donor-restricted endowment net assets at June 30, 2020	1,194,251
Investment income, net	16,221
Net appreciation	156,919
Amount appropriated for expenditure	<u>(173,140)</u>
Donor-restricted endowment net assets at June 30, 2021	<u><u>\$ 1,194,251</u></u>

K. 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, 2021 and 2020, totaled approximately \$149,400 and \$157,000, respectively.

During the year ended June 30, 1997, a deferred compensation plan under Section 457 of the IRC was adopted for a 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 \$79,000 and \$105,000 at June 30, 2021 and 2020, respectively, is reported in the consolidated statements of financial position as part of the deferred compensation liability.

ARMS OF HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

L. 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.

M. Subsequent Events

In preparing the consolidated financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through November 16, 2021, the date the consolidated financial statements were available for issuance.

On September 8, 2021, the Organization received forgiveness in full of the \$674,406 forgivable loan described in Note I.