

Hope House Colorado

Financial Statements

December 31, 2019

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Hope House of Colorado

Report on Financial Statements

We have audited the accompanying financial statements of Hope House Colorado, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

**Board of Directors
Hope House of Colorado**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope House Colorado as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kuendinger, Corda & Congle, P.C.

April 16, 2020

Hope House Colorado
Statement of Financial Position
December 31, 2019

Assets	
Cash and cash equivalents	\$ 827,634
Restricted cash for building project (note 3)	77,154
Contributions receivable, net	23,869
Prepaid expenses and other assets	7,444
Property and equipment, net (note 4)	<u>5,387,840</u>
Total assets	<u>\$ 6,323,941</u>
Liabilities and Net Assets	
Accounts payable and accrued liabilities	\$ 105,135
Mortgage payable (note 5)	<u>114,844</u>
Total liabilities	<u>219,979</u>
Net assets (note 7)	
Without donor restrictions	
Undesignated	335,291
Investment in property and equipment, net of related debt	5,272,996
Board designated	<u>404,446</u>
Total without donor restrictions	6,012,733
With donor restrictions	<u>91,229</u>
Total net assets	6,103,962
Commitments (notes 6 and 8)	
Total liabilities and net assets	<u>\$ 6,323,941</u>

See the accompanying notes to the financial statements.

Hope House Colorado
Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and support			
Contributions			
Corporate	\$ 69,251	67,556	136,807
Foundation grants	201,766	640,000	841,766
Individuals	916,584	301,095	1,217,679
Churches	26,923	6,000	32,923
In-kind (note 9)	125,473	73,620	199,093
Special events revenue	771,968	–	771,968
Less: direct expenses	(230,379)	–	(230,379)
Interest and other income (loss)	(8,289)	–	(8,289)
Net assets released due to satisfaction of time or purpose restrictions (note 7)	4,946,950	(4,946,950)	–
Total revenue, gains and support	6,820,247	(3,858,679)	2,961,568
Expenses			
Program services	1,419,709	–	1,419,709
Supporting services			
Management and general	170,324	–	170,324
Fundraising	222,333	–	222,333
Total supporting services	392,657	–	392,657
Total expenses before noncash items	1,812,366	–	1,812,366
Change in net assets before noncash items	5,007,881	(3,858,679)	1,149,202
Depreciation	(78,121)	–	(78,121)
Change in net assets	4,929,760	(3,858,679)	1,071,081
Net assets at beginning of year	1,082,973	3,949,908	5,032,881
Net assets at end of year	\$ 6,012,733	91,229	6,103,962

See the accompanying notes to the financial statements.

Hope House Colorado
Statement of Functional Expenses
Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, benefits and taxes	\$ 932,999	103,776	184,624	1,221,399
Direct program costs	300,148	–	–	300,148
Occupancy	75,825	1,639	4,533	81,997
Office expenses	23,584	508	25,476	49,568
Legal and accounting	4,633	56,218	611	61,462
Information technology	52,764	1,136	2,923	56,823
Conferences and meetings	1,357	5,074	2,966	9,397
Insurance	20,648	444	1,128	22,220
Other expenses	1,349	1,529	72	2,950
Interest	6,402	–	–	6,402
Total functional expenses	<u>1,419,709</u>	<u>170,324</u>	<u>222,333</u>	<u>1,812,366</u>
Depreciation	<u>73,743</u>	<u>1,332</u>	<u>3,046</u>	<u>78,121</u>
Total expenses	<u>\$ 1,493,452</u>	<u>171,656</u>	<u>225,379</u>	<u>1,890,487</u>

See the accompanying notes to the financial statements.

Hope House Colorado
Statement of Cash Flows
Year Ended December 31, 2019

Cash flows from operating activities	
Change in net assets	\$ 1,071,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	78,121
Capitalization of in-kind donations	(73,620)
Change in operating assets and operating liabilities:	
Contributions receivable	(3,657)
Prepaid expenses and other assets	46,700
Accounts payable and accrued liabilities	(2,169)
Net cash provided by operating activities	<u>1,116,456</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(2,223,584)</u>
Net cash used in investing activities	<u>(2,223,584)</u>
Cash flows from financing activities	
Repayment of mortgage payable	<u>(12,005)</u>
Net cash used in financing activities	<u>(12,005)</u>
Net decrease in cash and cash equivalents	(1,119,133)
Cash, cash equivalents and restricted cash at beginning of year	<u>2,023,921</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 904,788</u>
Supplemental cash flow information	
Interest paid	<u>\$ 6,402</u>
Noncash investing activities	
In-kind capitalized property and equipment	<u>\$ 73,620</u>

See the accompanying notes to the financial statements.

Hope House Colorado
Notes to Financial Statements

December 31, 2019

(1) Summary of Significant Accounting Policies

(a) Organization

Hope House Colorado (Hope House) is committed to transforming the lives of teen mothers around the world. Hope House offers teen moms and their children hope for a brighter future by providing resources, education, and support to build strong, healthy and loving homes. Hope House offers residential and outreach programs at their facilities in Arvada and Westminster, Colorado. Hope House was incorporated in 2001 in Colorado as a non-profit corporation and is supported primarily through donor contributions, grants and fundraising activity.

(b) Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Hope House is required to report information regarding its financial position and activities according to the following net asset classes:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Hope House. These net assets may be used at the discretion of Hope House's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Hope House has no donor restricted net assets that are perpetual in nature.

(c) Cash, Cash Equivalents and Restricted Cash

Hope House considers all cash and highly liquid financial instruments with original maturities of three months or less to be cash equivalents. Cash balances held for long-term donor restricted purposes are shown as restricted cash in the statement of financial position.

Hope House Colorado

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Concentrations of Credit Risk

Financial instruments which potentially subject Hope House to concentrations of credit risk consist principally of cash, cash equivalents and restricted cash. Hope House places its cash with creditworthy, high quality financial institutions. At times during the year, a portion of Hope House's cash deposits may not be insured by the FDIC or related entity.

(e) Revenue Recognition

Contributions and contributions receivable are recorded as net assets with donor restrictions or net assets 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 purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional contributions receivable are recognized as revenue in the period the pledge is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Receivables deemed uncollectible are expensed when that determination is made. Conditional contributions receivable, that is, those with a measurable performance or other barrier, and a right of return, are recognized when the conditions on which they depend are substantially met. Conditional contributions received prior to conditions being met are recorded as a refundable advance in the statement of financial position.

Special events revenue is recognized equal to the cost of direct benefit to donors, and contribution revenue for the difference.

(f) Property and Equipment

Property and equipment are stated at cost at the date of purchase or, if donated, at the approximate fair market value at the date of donation. Hope House capitalizes property and equipment with a cost or fair value at the date of donation of \$5,000 or more, and are depreciated over their estimated useful lives using the straight-line method. Buildings will be depreciated over a 40-year life and other fixed assets are depreciated over a five to seven-year period.

Hope House Colorado

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) In-Kind Contributions

In-kind contributions may include donated property and equipment, services, space use, materials or supplies. In-kind contributions are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation, or capitalized if they meet the capitalization criteria. Donated auction items are recorded at the cash sales price at the time of sale and included in special event revenue. Hope House recognizes the value of contributed services when they (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Hope House.

Many individuals volunteer their time and perform a variety of tasks that assist Hope House with specific assistance on programs and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under generally accepted accounting principles.

(h) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. Hope House incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. Hope House also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

(i) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(j) Income Taxes

Hope House is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and contributions received qualify for the charitable contribution deduction. However, income from activities not directly related to Hope House's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income in 2019.

Hope House Colorado

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Income Taxes, Continued

Hope House follows the *Accounting for Uncertainty in Income Taxes* accounting standard which requires Hope House to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. Hope House believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed. Hope House's tax returns for the previous three years, December 31, 2016 through December 31, 2018, are subject to examination by the IRS, generally for three years after initial filing.

(k) Subsequent Events

Hope House's financial statements were available to be issued on April 16, 2020, and this is the date through which subsequent events were evaluated.

(l) New Accounting Pronouncements

During 2019, Hope House adopted ASU 2018-08 *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update was issued to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Hope House has implemented the provisions of ASU 2018-08 in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

During 2019, Hope House adopted ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. Management believes that the adoption of the new accounting standard provides a better presentation of cash flows to the users of its financial statements. Before the change, restricted cash and restricted cash equivalents were not included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts reported on the statement of cash flows. Hope House applied the change on a retrospective basis beginning in 2019. The effect of this change was to increase total cash, cash equivalents, restricted cash and restricted cash equivalents at the beginning of the year in the statement of cash flows by \$1,405,486 for restricted cash included in assets restricted to investment in property and equipment at the end of 2018.

Hope House Colorado

Notes to Financial Statements, Continued

(2) Availability and Liquidity of Financial Assets

The following represents Hope House's financial assets as of December 31, 2019, that are available for expenditure for on-going programs and general operations within one year:

Financial assets available to fund general operations:	
Cash and cash equivalents	\$ 827,634
Cash restricted for building project	77,154
Contributions receivable	<u>23,869</u>
Total financial assets	928,657
Less financial assets not available within the year ending December 31, 2020:	
Board designated operating reserve	<u>(386,446)</u>
Total financial assets available for expenditure within one year	\$ <u>542,211</u>

Hope House receives significant support from contributions and grants, including restricted donations and grants. Based on donor restrictions and timing of receivables, resources may be unavailable until a future period. Hope House maintains sufficient resources to meet the responsibilities to its donors. As part of Hope House's liquidity management, Hope House has a policy to maintain no less than 30 days of expenses in the operating bank account to be available for expenditure, liabilities and other obligations as they come due.

In addition, Hope House maintains a board designated reserve of operating surplus, which is \$386,446 as of December 31, 2019. At the board's discretion and in accordance with its policy, the operating reserve may be drawn upon the event of financial distress, or be used for general operations when deemed necessary. Additionally, Hope House maintains a secured line of credit with a commercial bank in the amount of \$150,000. See note 6.

(3) Cash Restricted and Designated for Building Project or Capital Improvements

Hope House has deposited cash resources which are restricted or board designated for its building project in a separate account as follows:

Donor restricted funds for capital reserve	\$ 25,000
Donor restricted funds for capital construction	28,042
Designated funds	<u>24,112</u>
Total restricted cash for building project	\$ <u>77,154</u>

Hope House Colorado

Notes to Financial Statements, Continued

(3) Cash Restricted and Designated for Building Project or Capital Improvements, Continued

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

Cash and cash equivalents	\$ 827,634
Restricted cash for building project	<u>77,154</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ <u>904,788</u>

(4) Fixed Assets

The components of fixed assets are as follows for the year ending December 31, 2019:

Land	\$ 369,577
Building improvements	598,853
Furniture, equipment and software	330,074
Vehicles	49,903
Buildings	<u>4,409,517</u>
	5,757,924
Less accumulated depreciation	<u>(370,084)</u>
Total fixed assets	\$ <u>5,387,840</u>

(5) Mortgage Payable

On August 6, 2012 Hope House was issued a \$190,757 mortgage note payable which is secured by a deed of trust and deposit accounts held at the commercial lending institution. The note has an interest rate of 5.2% and is payable in monthly installments of \$1,534 through July 2027.

The maturities of the debt is as follows for the years ended December 31:

2020	\$ 12,639
2021	13,339
2022	14,059
2023	14,819
2024	15,611
Thereafter	<u>44,377</u>
	\$ <u>114,844</u>

Hope House Colorado

Notes to Financial Statements, Continued

(6) Line of Credit

Hope House has a \$150,000 revolving line of credit with a commercial bank. The interest rate is variable based on prime plus 1.5%, but no lower than 5.50%. This line of credit was renewed during 2019, with a maturity date of June 2022. There was no outstanding balance on this line of credit at December 31, 2019 and no borrowings during 2019.

(7) Net Assets

At December 31, 2019 the board has elected to designate net assets without donor restrictions as follows:

Board designated – operating reserve	\$ 386,446
Board designated – book reserve	<u>18,000</u>
Total board designated net assets	\$ <u>404,446</u>

Net assets with donor restrictions consist of restricted cash and contributions receivable for the following purposes at December 31, 2019:

Capital campaign construction project	\$ 71,229
Residential remodel	<u>20,000</u>
Total net assets with donor restrictions	\$ <u>91,229</u>

For the year ended December 31, 2019, net assets were released from restrictions due to the following purpose restriction being accomplished:

Satisfaction of construction of Resource Center	\$ 4,840,126
Satisfaction of other purpose restrictions	<u>106,824</u>
Total net assets released from restrictions	\$ <u>4,946,950</u>

(8) Retirement Plan

Hope House sponsors a SIMPLE IRA plan (the Plan) for the benefit of eligible employees. Eligible employees may begin to participate in the Plan with elective deferral contributions once the employee has earned \$5,000 during any two preceding years, and must be reasonably expected to earn such amounts during the current year. Hope House makes matching contributions in an equal amount to an employee's elective deferrals but not to exceed 3%. Plan benefits vest immediately. Hope House contributed \$15,258 to the Plan during the year ended December 31, 2019.

Hope House Colorado

Notes to Financial Statements, Continued

(9) In-Kind Contributions

In-kind contributions total \$199,093 for the year ended December 31, 2019. In-kind contributions include the following components:

Capitalized costs	\$ 73,620
Services	6,019
Supplies, clothing and other direct assistance	<u>119,454</u>
	\$ <u>199,093</u>

Hope House relies extensively on volunteers who perform a variety of services for which no estimate of value is made in the accompanying financial statements. In 2019, Hope House benefited from over 8,000 hours of volunteer time, of which approximately 400 was one-on-one tutoring time with teen moms. Other non-monetized services included child care, mentoring, repairs and maintenance, event support and office assistance.

(10) Subsequent Event

In recent days, the COVID-19 pandemic has caused business disruption in numerous sectors of the economy. As a result of the spread of the COVID-19 virus, economic uncertainties have arisen which are likely to have a negative impact on some of Hope House's activities. The related financial impact and duration cannot be reasonably estimated at this time. As a precautionary safeguard, Hope House applied for a loan under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As of April 16, 2020, the loan application has been approved for \$224,300 and Hope House is awaiting disbursement of the funds. The loan may be fully forgiven if used for payroll costs, interest on mortgages, rent, and utilities. At least 75% of the forgiven amount must be used for payroll. Loan payments will be deferred for six months and no collateral or personal guarantees are required.