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The Hope Effect

Financial Statements

December 31, 2022

With Independent Accountant's Compilation Report

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**INDEPENDENT ACCOUNTANT'S COMPIATION REPORT**

To the Board of Directors  
The Hope Effect

Management is responsible for the accompanying financial statements of The Hope Effect (a nonprofit corporation), which comprise the Statement of Assets, Liabilities and Net Assets – Modified Cash Basis as of December 31, 2022, and the related Statements of Revenues, Expenses, and Other Changes in Net Assets – Modified Cash Basis, Functional Expenses – Modified Cash Basis, and Cash Flows – Modified Cash Basis for the year then ended, and the related notes to the financial statements in accordance with the modified cash basis of accounting, and for determining that the modified cash basis of accounting is an acceptable financial reporting framework.

I have performed the compilation engagements in accordance with Statements of Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA.

I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. I do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are presented on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

*Monica J. Stern, CPA, PLLC*

September 7, 2023

THE HOPE EFFECT  
Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis  
December 31, 2022

Assets

Cash and cash equivalents	\$	328,704
Equipment, net of accumulated depreciation		<u>3,208</u>
Total assets	\$	<u><u>331,912</u></u>

Liabilities

Accrued payroll withholdings	\$	4,742
Credit cards payable		<u>4,046</u>
Total liabilities		<u>8,788</u>

Net Assets

Without donor restrictions		107,432
With donor restrictions		<u>215,692</u>
Total net assets		<u>323,124</u>
Total liabilities and net assets	\$	<u><u>331,912</u></u>

See independent accountant's compilation report and accompany notes.

The Hope Effect  
Statement of Revenues, Expenses, and Other Changes in Net Assets - Modified Cash Basis  
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restricted	Total
Support and Revenue			
Contributions of cash	\$ 119,629	\$ 411,247	\$ 530,876
Contributions of investments	9,414	-	9,414
Interest	633	-	633
Gain on sale of investments	32	-	32
Total support and revenue	129,708	411,247	540,955
Net assets released from restrictions:			
Satisfaction of program restrictions	416,529	(416,529)	-
	546,237	(5,282)	540,955
EXPENSES			
Program Services			
Family-based orphan care	441,748	-	441,748
Total program services	441,748	-	441,748
Supporting Services			
General and administrative	51,374	-	51,374
Fundraising	37,797	-	37,797
Total supporting services	89,171	-	89,171
Total expenses	530,919	-	530,919
CHANGE IN NET ASSETS	15,318	(5,282)	10,036
NET ASSETS, beginning of year	92,114	220,974	313,088
NET ASSETS, end of year	\$ 107,432	\$ 215,692	\$ 323,124

See independent accountant's compilation report and accompany notes.

The Hope Effect  
Statement of Functional Expenses - Modified Cash Basis  
For the Year Ended December 31, 2022

	<u>Program Services</u>	<u>Supporting Services</u>			
	Family-Based Orphan Care	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and wages	\$ 115,854	\$ 28,224	\$ 9,101	\$ 37,325	\$ 153,179
Payroll taxes and other benefits	9,460	2,353	749	3,102	12,562
	<u>125,314</u>	<u>30,577</u>	<u>9,850</u>	<u>40,427</u>	<u>165,741</u>
Grants and assistance	231,206	-	-	-	231,206
Professional services	-	3,586	-	3,586	3,586
Contract services	150	-	-	-	150
Advertising and promotion	-	-	180	180	180
Equipment	1,480	10	10	20	1,500
Information technology	1,874	3,124	13,231	16,355	18,229
Insurance	495	123	39	162	657
Occupancy	122	-	-	-	122
Office expenses	5,577	12,385	2,942	15,327	20,904
Supplies	6,642	259	10,357	10,616	17,258
Training	16,284	974	1,065	2,039	18,323
Travel and transportation	51,863	-	-	-	51,863
Depreciation	<u>741</u>	<u>336</u>	<u>123</u>	<u>459</u>	<u>1,200</u>
Total expenses	<u><u>\$ 441,748</u></u>	<u><u>\$ 51,374</u></u>	<u><u>\$ 37,797</u></u>	<u><u>\$ 89,171</u></u>	<u><u>\$ 530,919</u></u>

See independent accountant's compilation report and accompany notes.

The Hope Effect  
Statement of Cash Flows  
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 10,036
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,200
Increase (decrease) in accrued payroll withholdings	(1,736)
Increase (decrease) in credit card payables	585
Total adjustments	49
Net cash provided by operating activities	10,085

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	(2,820)
Net cash used in investing activities	(2,820)
Net increases in cash and cash equivalents	7,265

Cash and cash equivalents - beginning of year	321,439
Cash and cash equivalents - end of year	\$ 328,704

See independent accountant's compilation report and accompany notes.

THE HOPE EFFECT  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF ACTIVITIES** – The Hope Effect (the “Organization”) located in Peoria, Arizona was incorporated in 2014 under the laws of the State of Arizona. Its mission is to change the way the world cares for orphans by providing loving family care for orphaned and vulnerable children around the world. To get more children in loving families, the strategy is to pioneer public family-style care in several locations around the world through partnering with like-minded organizations and promoting a better way of caring for orphaned and vulnerable children.

During the year ended December 31, 2022, the Organization supported projects in Latin America, Southeast Asia, and the United States. Latin American projects were located in Mexico and Honduras, and Southeast Asia projects were in Thailand and Cambodia.

**BASIS OF ACCOUNTING** – The accompanying financial statements have been prepared on the modified cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when cash is disbursed, rather than when the obligation is incurred. Under the modified cash basis of accounting, the Organization records donated investments when received, capitalizes and depreciates its purchased plant assets; and recognizes liabilities for payroll withholdings and credit card purchases not yet paid.

**BASIS OF PRESENTATION** – The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**SUPPORT WITH DONOR RESTRICTIONS AND WITHOUT DONOR RESTRICTIONS** – Contributions received are recorded as support under net assets with donor restrictions or net assets without donor restrictions, depending on the existence and nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. 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 Revenues, Expenses, and Other Changes in Net Assets – Modified Cash Basis as net assets released from restrictions.

**USE OF ESTIMATES** – The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS** – For the statement of cash flows, the Organization considers all highly liquid investments without donor restrictions, if any, with an initial maturity of three months or less to be cash equivalents.

**INVESTMENTS** – Contributed investments, which are a financial asset, are recorded as support at the estimated fair value at the date of contribution. A gain or loss is recorded when sold. No investments were held as of December 31, 2022.

See independent accountant’s compilation report.

THE HOPE EFFECT  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**EQUIPMENT, NET** – All equipment with a cost of over \$500 and a useful life of more than one year are capitalized. Repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the double declining balance method over the estimated useful lives of the assets. The estimated useful life for equipment is 5 years.

**EXPENSE ALLOCATIONS** – The cost of providing various programs and other activities have been summarized on a functional basis in the Statement of Revenues, Expenses and Other Changes in Net Assets – Modified Cash Basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Administration expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Organization. Fundraising expenses include allocable overhead costs and direct expenses related to soliciting contributions.

**ADVERTISING** – Advertising costs are expensed as incurred.

**(2) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following table reflects the Organization's financial assets available within one year of December 31, 2022, to meet cash needs for general expenditures:

Financial assets:	
Cash and cash equivalents	\$ 328,704
Less those unavailable for general expenditures within one year, due to:	
Donor restrictions	<u>215,692</u>
Financial assets available within one year to meet cash needs for general expenditures	<u>\$ 113,012</u>

The Organization manages its liquid resources by employing a variety of measures, including focusing on generating adequate contributions to cover the costs of its activities and monitoring costs closely.

**(3) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following as of December 31, 2022:

Cash in checking and in transit	\$ 47,926
Cash in savings	<u>280,778</u>
	<u>\$ 328,704</u>

Deposits at cash institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). Cash held in excess of FDIC limits at December 31, 2022, was \$78,704.

See independent accountant's compilation report.



THE HOPE EFFECT  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**(4) EQUIPMENT, NET OF ACCUMULATED DEPRECIATION**

Equipment consists of the following as of December 31, 2022:

Computers	\$ 5,247
Less: accumulated depreciation	<u>(2,039)</u>
	<u>\$ 3,208</u>

Total depreciation expense for the year ended December 31, 2022, was \$1,200.

**(5) NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes as of December 31, 2022:

Latin America projects	
Mexico	\$ 113,149
Southeast Asia projects	
Cambodia	30,000
Thailand	9,748
Expansion projects	23,233
Staff support	33,142
Other	<u>6,420</u>
	<u>\$ 215,692</u>

**(6) NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions consist of the following as of December, 31, 2022:

Latin America projects	
Mexico	\$ 238,709
Honduras	3,755
Southeast Asia projects	
Cambodia	28,000
Thailand	17,466
Expansion projects	1,204
Staff support	106,960
Other	<u>20,435</u>
	<u>\$ 416,529</u>

**(7) CASH FLOW INFORMATION**

No cash was paid for interest or income taxes during the year ended December 31, 2022.

See independent accountant's compilation report.

THE HOPE EFFECT  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**(8) CONCENTRATIONS**

The Organization conducts significant activities in Latin America and Southeast Asia. It is reasonably possible that events could occur that would cause a disruption to the Organization's activities in these areas.

**(9) DEDUCTIBLE GIFTS AND INCOME TAX EXEMPTION**

The Hope Effect is exempt from Federal and State income tax as a 501(c)(3) Organization and, therefore, donors may deduct contributions for income tax purposes. Bequests, legacies, devises, transfers, and gifts to The Hope Effect are deductible for Federal estate and gift tax purposes. The Organization is not classified as a private foundation by the Internal Revenue Service.

The Organization implemented accounting guidance related to uncertain tax positions consistent with the modified cash basis of accounting. Using this guidance, any tax provisions payable to tax authorities will be recognized in the financial statements when any paid to the tax authorities. However, as of December 31, 2022, the Organization is not aware of uncertain tax positions related to its operations.

**(10) RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2022, approximately \$65,300 was contributed by Board members and management.

During the year, the Organization paid \$128,650 to a not-for-profit organization located in Sonora, Mexico who is partnering with the Organization to implement the model of orphan care. A Board member and the executive director both serve as board members of this organization.

**(11) SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through September 7, 2023, which is the date the financial statements were available to be issued.

See independent accountant's compilation report.