



# **HERALDS OF HOPE**

**Heralds of Hope, Inc.  
Breezewood, Pennsylvania**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
For the Year Ended December 31, 2021**

Heralds of Hope, Inc.

Breezewood, PA

December 31, 2021

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## PAYNE, WHITE & SCHMUTZ

—CERTIFIED PUBLIC ACCOUNTANTS, PA—

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### *Independent Auditor's Report*

To the Board of Directors  
Heralds of Hope, Inc.  
Breezewood, PA

#### ***Opinion***

We have audited the financial statements of Heralds of Hope, Inc., which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heralds of Hope, Inc. as of December 31, 2021, 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.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heralds of Hope, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heralds of Hope, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Heralds of Hope, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heralds of Hope, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

*Payne, White & Schmutz, CPA, PA*

Payne, White & Schmutz, CPA, PA

November 7, 2022

# **Financial Statements**

**Heralds of Hope, Inc.**

**Statement of Financial Position**

**December 31, 2021**

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Assets:

Cash and cash equivalents	\$ 843,178
Inventory	53,465
Prepaid expenses	95,043
Investments	1,015,812
Property and equipment, net of accumulated depreciation of \$406,615	<u>274,170</u>
Total assets	<u><u>\$ 2,281,668</u></u>

Liabilities:

Accounts payable	\$ 47,835
Accrued liabilities	19,946
Gift annuity contracts	68,842
Revocable trusts	13,000
Investment certificates	<u>6,000</u>
Total liabilities	<u>155,623</u>

Net assets:

Without donor restrictions	1,562,873
With donor restrictions	<u>563,172</u>
Total net assets	<u>2,126,045</u>
Total liabilities and net assets	<u><u>\$ 2,281,668</u></u>

The notes to financial statements are an integral part of these statements.

Heralds of Hope, Inc.

Statement of Activities

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support:</b>			
Contributions	\$ 1,010,406	\$ 1,000,838	\$ 2,011,244
Literature sales	1,343	-	1,343
Fees and other income	19,054	-	19,054
Investment Income/(loss)	(15,806)	-	(15,806)
Change in value of annuities	2,708	-	2,708
<b>Total Revenue and Support</b>	<b>1,017,705</b>	<b>1,000,838</b>	<b>2,018,543</b>
<b>Reclassifications:</b>			
Satisfaction of program restrictions	717,646	(717,646)	-
<b>Expenses:</b>			
Program	1,137,690	-	1,137,690
Administration	204,881	-	204,881
Fund raising	215,838	-	215,838
<b>Total Expenses</b>	<b>1,558,409</b>	<b>-</b>	<b>1,558,409</b>
<b>Change in net assets</b>	<b>176,942</b>	<b>283,192</b>	<b>460,134</b>
<b>Net assets, beginning of year</b>	<b>1,385,931</b>	<b>279,980</b>	<b>1,665,911</b>
<b>Net assets, end of year</b>	<b>\$ 1,562,873</b>	<b>\$ 563,172</b>	<b>\$ 2,126,045</b>

The notes to financial statements are an integral part of these statements.

**Heralds of Hope, Inc.****Statement of Functional Expenses****For the Year Ended December 31, 2021**

	<b>Program</b>	<b>Administration</b>	<b>Fund Raising</b>	<b>Total</b>
Radio time purchases	\$ 536,763	\$ -	\$ 8,575	\$ 545,338
Grants and assistance	344,819	-	-	344,819
Salaries and wages	62,019	120,666	110,708	293,393
Bibles and literature	79,173	-	-	79,173
Postage and freight	31,412	663	8,027	40,102
Advertising and promotion	1,222	400	33,372	34,994
Depreciation	13,506	13,506	-	27,012
Other employment benefits	10,593	6,947	9,013	26,553
Auto and travel	14,788	5,369	6,329	26,486
Payroll taxes	9,815	7,491	8,524	25,830
Supplies	7,218	1,263	13,680	22,161
Repairs and maintenance	9,716	9,516	-	19,232
Information technology	2,828	12,269	3,617	18,714
Professional fees	-	8,096	7,820	15,916
Occupancy	1,195	7,734	531	9,460
Printer lease	3,433	172	4,979	8,584
Bank and credit card fees	2,055	4,901	-	6,956
Orphan sponsor expense	5,760	-	-	5,760
Utilities	1,275	1,700	567	3,542
Food	94	2,771	96	2,961
Office expense	-	1,417	-	1,417
Miscellaneous	6	-	-	6
Total expenses	<u>\$ 1,137,690</u>	<u>\$ 204,881</u>	<u>\$ 215,838</u>	<u>\$ 1,558,409</u>

The notes to financial statements are an integral part of these statements.

**Heralds of Hope, Inc.**

**Statement of Cash Flows**

**For the Year Ended December 31, 2021**

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**Cash flows from operating activities:**

Change in net assets \$ 460,134

**Adjustments to reconcile change in net assets**

**to net cash provided (used) by operating activities:**

Depreciation	27,012
(Gain)/loss on investments	35,452
(Gain)/loss on sale of capital assets	13,904
(Gain)/loss on change in value of annuities	(2,708)
(Increase)/decrease in inventory	42,511
(Increase)/decrease in prepaid expenses	(95,043)
Increase/(decrease) in accounts payable	12,450
Increase/(decrease) in accrued liabilities	6,097

**Net cash provided (used) by operating activities** 499,809

**Cash flows from investing activities:**

Purchases of capital assets	(88,603)
Proceeds from sale of capital assets	1,500

**Net cash provided (used) by investing activities** (87,103)

**Net increase (decrease) in cash** 412,706

**Cash and cash equivalents, beginning of year** 430,472

**Cash and cash equivalents, end of year** \$ 843,178

The notes to financial statements are an integral part of these statements.

## **Notes to Financial Statements**

## **Heralds of Hope, Inc.**

### **Notes to Financial Statements**

**For the Year Ended December 31, 2021**

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#### **Note 1 – Description of Organization and Summary of Significant Accounting Policies:**

##### **Organization**

Heralds of Hope, Inc. (HoH) is incorporated as a non-profit organization under the laws of Pennsylvania. Its administrative office is located in Breezewood, PA. HoH was founded to proclaim hope in Jesus for salvation. This is done by distribution of Christian literature and Bibles and through presentation of radio broadcasts.

##### **Basis of Accounting and Presentation**

HOH uses the accrual basis of accounting, which recognizes income when earned regardless of when received and expenses when incurred regardless of when paid. Financial statement presentation follows generally accepted accounting principles within the United States of America (GAAP) and follows the recommendations of the Financial Accounting Standards Board for exempt organizations. HOH is required to report 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.

##### **Income Taxes**

HoH is tax-exempt under 501(c)(3) of the Internal Revenue Code. During the year, HOH had no material sources of unrelated business income. Therefore, no provision is made for federal and state corporate income taxes.

HoH has adopted accounting principles related to accounting for uncertainty in income taxes. HoH's policy is to record a liability for any tax position taken that is beneficial to HoH, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Penalties and interest related to underpayment of income taxes are not recorded as income taxes but as penalties and interest expense. Management has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2021.

##### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash held in checking accounts. HOH considers short-term investments with original maturities of three months or less to be cash equivalents.

##### **Inventory**

Inventory consists of ministry-related books and literature held for future distribution and data processing supplies. These are stated at the lower of cost or net realizable value.

##### **Prepaid Expenses**

Prepaid expenses are composed of a down payment made to a printing company for the printing of Bibles.

##### **Investments**

Investments in equity securities with readily determinable fair values, precious metals and all debt securities are measured at fair value in the statement of financial position. Other investments are held as cost method investments.

## Heralds of Hope, Inc.

### Notes to Financial Statements

#### For the Year Ended December 31, 2021

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##### Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued):

The majority of invested amounts are held in unsecured debt instruments with another conservative Anabaptist organization. These debt instruments are non-transferable and can only be redeemed by HOH. HOH carries its investment in these debt instruments at cost. There are no purchase discounts or premiums at the time of purchase. The investment yields a rate of interest as determined under the provisions of the state level securities registration statement. The interest rate at the current year-end is 2.25% for long-term holdings and 0.0% for short-term holdings. HoH had \$1,125,650 invested in these debt instruments at the end of 2021, with \$200,320 under cash and cash equivalents and \$925,330 listed under investments on the statement of financial position.

##### **Property and Equipment**

Property and equipment are carried at cost for items purchased and at fair value for donated items. Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation is based on the following policies:

<u>Description</u>	<u>Useful Life</u>	<u>Method</u>
Buildings	27-40 years	Straight line
Land and Building Improvements	15-40 years	Straight line
Equipment and Furniture	5-7 years	Straight line
Vehicles	5 years	Straight line

HOH capitalizes assets when the individual unit cost or land/building improvements equal at least \$5,000.

##### **Net Assets**

Financial statement presentation follows the requirements of Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. The accounting standard requires the Organization to report 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.

- A) Net assets without donor restrictions are those available at the discretion of the board for use in HOH's programs and other functions, and those resources invested in land, buildings and equipment.
- B) Net assets with donor restrictions are those restricted by donors for specific operating purposes or for use in a future reporting period. Also included in this category are net assets subject to donor-imposed restrictions to be held in perpetuity such as endowments or irrevocable trusts.

##### **Revenue and Support with or without Donor Restrictions**

Contributions received are recorded with or without donor restrictions depending on the expressed intentions of the donors. All donor-restricted support is reported as an increase in net assets with 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 statement of activities as satisfaction of program restrictions.

# Heralds of Hope, Inc.

## Notes to Financial Statements

### For the Year Ended December 31, 2021

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#### Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued):

##### Functional Allocation of Expenses

Expenses are summarized on a functional basis in the statement of functional expenses. Accordingly, expenses have been allocated between program, administration, and fund raising based upon their functional purpose. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage or time and effort. Administration expenses are supporting activities that are not directly identifiable with program activities. Fund raising expenses promote the solicitation of support from current and potential donors for its program and administrative activities.

##### Subsequent Events Evaluation

Management has evaluated subsequent events through November 7, 2022, which is the date the financial statements were available to be issued.

#### Note 2 – Concentrations of Credit Risk:

For the year ended December 31, 2021, HoH had cash deposits of \$88,376 that were not covered by the Federal Deposit Insurance Corporation (FDIC).

#### Note 3 – Financial Assets and Liquidity Resources:

HoH's operations are primarily funded by contributions from donors and a portion of these contributions contain restrictions. Those restrictions require that resources be used for specific program activities or in a future period. Therefore, HoH must maintain resources to meet those responsibilities to its donors and certain assets may not be available for general expenditure within one year. As part of its liquidity management, HoH has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. HoH does not currently try to maintain an established minimum balance in its operating bank accounts, but does closely monitor cash in its operating accounts in relation to its general expenditure obligations. Should funding run low, HoH would reduce spending as much as feasible. The governing board would consider borrowing funds to meet obligations.

The following schedule reflects HoH's financial assets as of its year ended in 2021, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts that are not available also include board designated amounts, if any, that could be utilized if the board of directors approved their use.

Cash and cash equivalents	\$ 843,178
Investments	<u>1,015,812</u>
Total financial assets	1,858,990
Less those unavailable for general expenditures within one year due to:	
Restricted by donors with time or purpose restrictions	(563,172)
Portion of investments not expected to be received within one year	(5,789)
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,290,029</u></u>

**Heralds of Hope, Inc.****Notes to Financial Statements****For the Year Ended December 31, 2021****Note 4 - Property and Equipment:**

Property and equipment consisted of the following:

<u>Description</u>	<u>2021</u>
Land	\$ 24,000
Buildings	337,829
Land and Building Improvements	245,183
Furniture and equipment	38,730
Vehicles	7,928
Construction in Progress	<u>27,115</u>
Total	680,785
Less accumulated depreciation	<u>(406,615)</u>
Property and equipment, net	<u>\$ 274,170</u>

**Note 5 – Fair Value Measurements of Assets and Liabilities:**

Accounting principles clarify that fair value is an exit price, representing the price that would be received to sell or paid to transfer an asset or liability in an orderly transaction between market participants at the measurement date. HOH uses market data or assumptions that market participants would use in pricing the asset or liability. Fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Financial and non-financial assets and liabilities with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial and non-financial assets and liabilities valued using inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Financial and non-financial assets and liabilities that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

The following table sets forth by level within the fair value hierarchy HoH's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2021. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. HoH's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

<u>Description</u>	<u>Amount at 12/31/21</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Debt securities	\$ 925,330	\$ 925,330	\$ -	\$ -
Precious metals	37,851	37,851	-	-
Mutual funds	19,118	19,118	-	-
Fixed income funds	15,301	15,301	-	-
Equity investment	9,961	-	9,961	-
Other funds	8,251	8,251	-	-
<b>Total</b>	<u>\$ 1,015,812</u>	<u>\$ 1,005,851</u>	<u>\$ 9,961</u>	<u>\$ -</u>

**Heralds of Hope, Inc.**

**Notes to Financial Statements**

**For the Year Ended December 31, 2021**

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**Note 5 - Fair Value Measurements of Assets and Liabilities: (Continued):**

Investment income/(loss) consists of:

	<u><b>2021</b></u>
Interest and dividends	\$ 22,621
Net realized gains	2,818
Net unrealized losses	<u>(41,245)</u>
 Total	 <u><u>\$ (15,806)</u></u>

**Note 6 – Gift Annuities:**

HoH has established a charitable gift annuity plan whereby donors may transfer assets to HoH, in exchange for the right to receive a fixed-dollar, annual return during their lifetimes. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes. The difference between the amount of annuity and the liability for future payments, determined on an actuarial basis, is recognized as contribution revenue in the year the annuity is established. The actuarial liability for gift annuity contracts is evaluated annually and any surplus or deficiency is recognized as change in value of annuities. HoH recognized a \$2,708 decrease in change in value of annuities for the year ended December 31, 2021.

HoH has, without donor restrictions and unencumbered assets, cash, cash equivalents and publicly traded securities of \$1,570,400 at December 31, 2021. The Commonwealth of Pennsylvania guidelines for exempt organizations issuing charitable gift annuities requires HoH to have minimum unencumbered assets as follows:

Pennsylvania Guidelines - \$100,000 plus 50% of the  
Principal Amount of Annuities Issues and in Effect:

Principal Amount of Annuities	<u>\$ 160,000</u>
50% of Principal	\$ 80,000
	<u>100,000</u>
State Minimum Unencumbered Assets Required	<u><u>\$ 180,000</u></u>

**Note 7 – Revocable Trust Agreements:**

Revocable trust agreements represent grantor trusts which provide current income to the grantor or other beneficiary, and a future benefit to HoH and/or other beneficiary of the corpus upon the death of the grantor. The grantor retains the right to withdraw some or all of the corpus and, thus, the trust amounts are reflected as a liability until they become gifts to HoH. The balance as of December 31, 2021 was \$13,000, all of which names HoH as the beneficiary.

**Heralds of Hope, Inc.**

**Notes to Financial Statements**

**For the Year Ended December 31, 2021**

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**Note 8 – Revenue from Contracts with Customers:**

Revenue from contracts with customers should be recognized when HOH fulfills its performance obligations to its customers. The sources of revenue from contracts with customers are as follows:

Literature sales – Revenue consists of Bible and other literature sales. Revenue is recorded at the time funds are received. No contract assets or liabilities exist.

**Note 9 – Net Assets with Donor Restrictions:**

Net assets with donor restrictions were available as of December 31, 2021 for the following purposes:

<u>Purpose</u>	
Bibles and Literature	\$ 171,108
International Broadcasts	385,640
Pastor Training	<u>6,424</u>
Total	<u>\$ 563,172</u>

**Note 10 – Operating Leases:**

On September 1, 2017 HoH entered into a 60-month copier lease with a monthly lease payment of \$720. Minimum future lease payments for the year ended December 31, 2022 are \$5,760.

**Note 11 – Major Donors:**

During 2021, HoH received \$239,226 of contributions from one donor. These contributions accounted for 11.89% of HoH's total contributions for the year.

**Note 12 – Prior Year Reclassification:**

In the prior year, cash and cash equivalents did not include short term investments. However, in the current year statement of cash flows, cash and cash equivalents, beginning of year includes short term investments. This reclassification has been made in order for the cash and cash equivalents, beginning of year balance to be consistent with the current year presentation of cash and cash equivalents on the statement of financial position. This reclassification resulted in the increase of cash and cash equivalents, beginning of year by \$100,420.