

HEARTS WITH A MISSION

AUDIT REPORT

For the Year Ended

June 30, 2017

RICHARD W. BREWSTER, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT
MEDFORD

HEARTS WITH A MISSION
For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

RICHARD W. BREWSTER, CPA, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hearts with a Mission
Medford, Oregon 97501

I have audited the accompanying financial statements of Hearts with a Mission, (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2017, 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


My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearts with a Mission as of June 30, 2017, 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.


Richard W. Brewster
Certified Public Accountant

August 25, 2017

FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Statement of Financial Position
June 30, 2017

	2017
ASSETS	
Current assets	
Cash and cash equivalents	\$ 176,047
Cash and cash equivalents temporarily restricted	12,300
Governmental contracts receivable	56,701
Grant receivable	50,000
Total current assets	295,048
Land, buildings, and equipment	1,469,375
Less accumulated depreciation	(124,672)
Net buildings and equipment	1,344,703
Other assets	
HRA deposits	10,093
City Life, LLC - partnership	414,417
Total other assets	424,510
TOTAL ASSETS	\$ 2,064,261
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 14,996
Accrued payroll	45,708
Vacation payable	23,861
Deferred revenue	12,300
Current portion of long-term debt	129,656
Total current liabilities	226,521
Long-term debt	420,041
TOTAL LIABILITIES	646,562
NET ASSETS	
Temporarily restricted	50,000
Unrestricted	1,367,699
TOTAL NET ASSETS	1,417,699
TOTAL LIABILITIES AND NET ASSETS	\$ 2,064,261

See notes to financial statements.

HEARTS WITH A MISSION
Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>
REVENUES AND SUPPORT			
Direct public support			
Fundraising events	\$ 187,895	\$ -	\$ 187,895
Individual contributions	400,360		400,360
Business contributions	58,508	-	58,508
Faith based contributions	82,587		82,587
Grants		251,521	251,521
Government contracts	625,815		625,815
In-kind contributions	135,554		135,554
Interest income	12		12
Other support			
Net assets released from restrictions			
Satisfaction of program restrictions	332,521	(332,521)	-
	<u>1,823,252</u>	<u>(81,000)</u>	<u>1,742,252</u>
Total direct public support			
	<u>1,823,252</u>	<u>(81,000)</u>	<u>1,742,252</u>
Total revenue and support	<u>1,823,252</u>	<u>(81,000)</u>	<u>1,742,252</u>
EXPENSES			
Program expense	1,273,669		1,273,669
Administrative expenses	176,700		176,700
Fundraising expenses	158,658		158,658
	<u>1,609,027</u>	<u>-</u>	<u>1,609,027</u>
TOTAL EXPENSES	<u>1,609,027</u>	<u>-</u>	<u>1,609,027</u>
CHANGE IN NET ASSETS	214,225	(81,000)	133,225
NET ASSETS BEGINNING OF YEAR	<u>1,153,474</u>	<u>131,000</u>	<u>1,284,474</u>
NET ASSETS END OF YEAR	<u>\$ 1,367,699</u>	<u>\$ 50,000</u>	<u>\$ 1,417,699</u>

See notes to the financial statements.

HEARTS WITH A MISSION
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Jackson County Youth Program	Josephine County Youth Program	Total Program Expenses
Salaries	\$ 419,193	\$ 409,592	\$ 828,785
Payroll taxes	40,404	29,197	69,601
Employee benefits	49,260	18,039	67,299
Other payroll related expenses	12,986	5,880	18,866
Total payroll and payroll taxes	<u>521,843</u>	<u>462,708</u>	<u>984,551</u>
Professional fees			-
Advertising	9,659	9,659	19,318
Office	21,159	18,280	39,439
Utilities	9,732	38,537	48,269
Training, travel, meetings	5,947	4,635	10,582
Outside services	20,701	3,902	24,603
Insurance	10,347	9,152	19,499
Fundraising events			-
Youth related expenses	34,776	20,895	55,671
Dues and subscriptions	1,762	1,311	3,073
Janitorial	4,144	11,038	15,182
New property expense		928	928
Interest expense	1,700	4,249	5,949
Depreciation	23,471	23,134	46,605
Total functional expenses	<u>\$ 665,241</u>	<u>\$ 608,428</u>	<u>\$ 1,273,669</u>
Percentage of total	<u>41.3%</u>	<u>37.8%</u>	<u>79.2%</u>

See notes to the financial statements.

HEARTS WITH A MISSION
Statement of Cash Flows
For the Year Ended June 30, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 133,225
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	46,605
(Increase) decrease in receivables	(6,701)
(Increase) decrease in HRA deposits	(10,093)
Increase (decrease) in accounts payable - trade	(16,955)
Increase (decrease) in accrued expenses	14,728
Increase (decrease) in deferred revenue	(44,621)
Total adjustments	(17,037)
Net Cash Provided (Used) By Operating Activities	116,188
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of improvements and equipment	(221,610)
City Life, LLC - partnership	28,454
Net Cash Provided (Used) By Investing Activities	(193,156)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds or (payments) on long-term debt	(38,597)
Net Cash Provided (Used) By Investing Activities	(38,597)
NET INCREASE (DECREASE) IN CASH	(115,565)
CASH AND CASH EQUIVALENTS	
BEGINNING OF YEAR	303,912
END OF YEAR	\$ 188,347
Supplemental Disclosures	
Interest paid	\$ 11,402
Non-cash transactions (in-kind contributions)	\$ 135,554

See notes to the financial statements.

Administrative Expenses	Fundraising Expenses	Total
\$ 114,221	\$ 80,857	\$ 1,023,863
8,488	6,790	84,879
8,207	6,566	82,072
893	742	20,501
<u>131,809</u>	<u>94,955</u>	<u>1,211,315</u>
5,372		5,372
3,827	1,095	24,240
26,216	4,101	69,756
1,847	485	50,601
756	96	11,434
		24,603
		19,499
	57,926	57,926
		55,671
		3,073
436		15,618
984		1,912
5,453		11,402
		46,605
<u>\$ 176,700</u>	<u>\$ 158,658</u>	<u>\$ 1,609,027</u>
<u>11.0%</u>	<u>9.9%</u>	<u>100.0%</u>

STATE OF NEW YORK
OFFICE OF THE COMPTROLLER
INVESTMENT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

AS PART OF THE STATE OF NEW YORK

ANNUAL REPORT TO THE GOVERNOR AND THE PEOPLE
OF THE STATE OF NEW YORK
FOR THE YEAR ENDED DECEMBER 31, 2011
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FOR THE YEAR ENDED DECEMBER 31, 2011

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of New York's financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America. The State of New York's financial statements are prepared on a modified accrual basis of accounting. The State of New York's financial statements are prepared on a modified accrual basis of accounting. The State of New York's financial statements are prepared on a modified accrual basis of accounting.

2. DEPRECIATION

3. CAPITAL ASSETS

HEARTS WITH A MISSION
Notes to Financial Statements
For the Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE OF THE ORGANIZATION

Hearts with a Mission (the Organization) is a not-for-profit organization, established under the laws of the State of Oregon to serve homeless and at-risk youth in the communities of Grants Pass and Medford, Oregon and surrounding areas by providing temporary emergency shelter, furthering education, mentoring and transition planning through a faith-based approach. The Organization currently has two locations with 34 beds available for use nightly. In addition, the Organization offers Host homes as an implementer of Safe Families for Children in both counties. They are also in a contract with the State to provide case management for up to 60 Foster care youth in both counties under the Child Welfare Independent Living Program. The Organization served 171 youth during the fiscal year ending June 30, 2017.

This summary of significant accounting policies of Hearts with a Mission is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States, unless otherwise stated, and have been consistently applied in the preparation of the financial statements.

BASIS OF ACCOUNTING AND PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared in accordance with FASB Accounting Standards Codification (ASC) 958-205 and its subsections. ASC 958-205 establishes standards for external financial reporting for not-for-profit organizations, and requires the Organization to report information regarding its financial position and activities into three classes of net assets according to externally (donor) imposed restrictions. In addition, it requires that unconditional promises to give (pledges) be recorded as receivables and revenues, and requires the organization to distinguish between contributions for each net asset category in accordance with donor imposed restrictions. Descriptions of the three net asset categories, as presented on the Statement of Activities, are as follows:

- 1) Unrestricted net assets represent available resources that have no donor imposed restrictions.
- 2) Temporarily restricted net assets have donor-imposed restrictions that will expire in the future.
- 3) Permanently restricted net assets have donor-imposed restrictions, which do not expire.

Unrestricted net assets consist of the general operating fund of the Organization and are available for use at the discretion of the Board of Directors.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments available for current use, with an initial maturity of three months or less, to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value.

BUILDINGS AND EQUIPMENT

The Organization capitalizes all expenditures for buildings and equipment if they are considered to benefit future periods. Purchased buildings and equipment are carried at cost. Donated buildings and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

REVENUE

The Organization's revenue is derived from contributions from the community and public grants, and state and county reimbursement for shelter services. Public grants are typically recorded in the year received unless grant requirements state the funding is for future periods. The Organization did not have any prefunded grants as of June 30, 2017.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2017 totaled \$24,240.

GRANT RECEIVABLE

The current receivable of \$50,000 is expected to be collected during the next fiscal year. It is recorded at its net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. No discount was recognized on the financial statements because the discounted amount is not material.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRIBUTIONS

The accompanying financial statements have been prepared in accordance with FASB Accounting Standards Codification (ASC) 958-205 and subsections for Not-for-Profit Organizations. ASC 958-205 requires the Organization to present net assets, revenue and gains based upon the existence or absence of donor imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Noncash donations are recorded as contributions at their fair market value at their date of donation. Donated services that do not require specialized skill or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Organization's program services and fundraising events, the value of which is not recorded in the accompanying financial statements.

COMPENSATED ABSENCES

Accumulated vested vacation pay is accrued as it is earned. The Organization provides its full-time employees with vacation pay based on their years of service. Vacation earned by employees is one to three weeks, with ability to carryover a maximum of one week per year.

INCOME TAXES

The Organization is a Not-For-Profit Organization that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a), and qualifies for deductible contributions as provided in Section 170 (b)(1)(A)(iii). Currently, the Organization does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for the year ended June 30, 2017.

The Organization's tax returns are subject to possible examination by taxing authorities. For federal income tax purposes, the tax returns essentially remain open for examination for a period of three years after the date on which those returns are filed.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2017

2. BUILDINGS AND EQUIPMENT

The following is a summary of land, buildings, and equipment stated at cost less accumulated depreciation. Renewals and betterments are charged to the asset accounts, while maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed in the current period. Depreciation of property and equipment is provided on the straight-line basis over the assets estimated useful life as follows: furnishings, equipment and vehicles – 5 to 15 years, buildings – 40 years.

	2017
Land	\$ 269,000
Buildings	1,049,958
Furnishings and equipment	88,400
Vehicles	62,017
Total land, buildings, and equipment	1,469,375
Less accumulated depreciation	(124,672)
Net land, buildings, and equipment	\$ 1,344,703

Depreciation expense for the year ended June 30, 2017 \$46,605.

3. LONG-TERM DEBT

Long-term liabilities of the Organization consist of the following:

	2017
Private mortgage payable to Erinaldo & Martha Blandino. Note is a fixed 30 year mortgage with a 5 year balloon payment due as scheduled in May 2017, payable in monthly installments of \$948.61, including interest at 3%. The note was then modified to 5% interest with a balloon payment due in 2018 to payoff the note. Real property is pledged as collateral.	\$ 95,743
Mortgage with First Community Credit Union. Note is a fixed 15 year mortgage with annual payments of \$37,866.58. These payments include interest at 1%. This note is set to mature on March 10, 2031. Real property is pledged as collateral.	453,954
Total	549,697
Less current portion	(129,656)
Total long-term debt	\$ 420,041

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2017

3. LONG-TERM DEBT (Continued)

Maturities of long-term debt as of June 30, 2017, are as follows:

June 30, 2018	\$ 129,656
June 30, 2019	34,222
June 30, 2020	34,534
June 30, 2021	34,849
June 30, 2022	35,168
June 30, 2023 - 2027	180,726
June 30, 2028 - 2031	<u>100,542</u>
Total	<u>\$ 549,697</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>2017</u>
Funds designated for the purchase of building and land	<u>\$ 50,000</u>

5. CONCENTRATION OF RISK

The Organization holds all of its cash deposits at Banner Bank and People's Bank. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The total bank balance at June 30, 2017 was \$188,882. As of June 30, 2017, none of the deposits were in excess of the FDIC insurance limit.

6. GRANTS

The Organization received the following grants for operating expenses during the year ended June 30, 2017:

Ford Family Foundation	\$ 100,000
Oregon Community Foundation	25,000
Meyer Memorial Trust	40,000
Chaney Family Foundation	10,000
United Way	10,000
Art Dubs Foundation	20,000
Four Way Community Foundation	8,000
Cow Creek Umpqua Indian Foundation	7,500
Anna May Family Foundation	7,500
Miscellaneous grants	<u>23,521</u>
Total	<u>\$ 251,521</u>

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2017

7. NON-CASH DONATIONS

The Organization received non-cash donations of fixed assets and materials during the year. Some of the items included a vehicle, furniture, flooring, and meals for the youth who reside at the facility. The meals provided are simply valued at \$50 per meal on the financial statements. Total noncash donations received were valued at \$135,554 during the fiscal year ended June 30, 2017.

8. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of running the shelter and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the shelter, administrative and fundraising categories.

9. COMMITMENTS

The Organization entered into a lease agreement on December 19, 2013 to lease a copy machine for 36 months. The monthly lease payment is for \$104 per month.

The Organization entered into a marketing agreement with First Community Credit Union on March 7, 2016. This agreement provides the Organization with marketing revenue of \$40,000 per year. The agreement was made in conjunction with the purchase of the Grants Pass, Oregon property. These payments were designed to cover the annual debt payments on the bank mortgage. The initial agreement is for five years that will automatically renew for up to two additional five-year periods.

10. CONTRACTS AND CONTINGENCIES

The Organization entered into a sub-grantee agreement with ACCESS, a private nonprofit corporation to provide services in accordance with the State Homeless Assistance. The remaining amount reported under government contracts is from the City of Medford, City of Grants Pass, Department of Education, and other agencies.

11. RELATED PARTY TRANSACTIONS

The Organization formed a jointly owned LLC known as City Life, LLC with Rogue Valley Youth for Christ (RVYFC). City Life, LLC constructed a building on the adjacent property for both organizations to utilize. RVYFC will own 64% interest and HWAM will own 36% interest. The Organization retained the mortgage for the land after the property was contributed to City Life, LLC.

12. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 25, 2017, which is the date of the Audit Report. The report was available to be issued on September 4, 2017.