

HEARTS WITH A MISSION

AUDIT REPORT

For the Year Ended

June 30, 2018

RICHARD W. BREWSTER, CPA, PC

**CERTIFIED PUBLIC ACCOUNTANT
MEDFORD**

HEARTS WITH A MISSION
For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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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, 2018, 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, 2018, 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

September 30, 2018

FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Statement of Financial Position
June 30, 2018

	2018
ASSETS	
Current assets	
Cash and cash equivalents	\$ 296,827
Prepaid expense	3,487
Governmental contracts receivable	108,728
Grant receivable	50,000
Total current assets	459,042
Land, buildings, and equipment	1,486,396
Less accumulated depreciation	(179,769)
Net buildings and equipment	1,306,627
Other assets	
HRA deposits	9,478
City Life, LLC - partnership	404,876
Total other assets	414,354
TOTAL ASSETS	\$ 2,180,023
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 32,750
Accrued payroll	56,457
Vacation payable	26,053
Current portion of long-term debt	77,561
Total current liabilities	192,821
Long-term debt	384,279
TOTAL LIABILITIES	577,100
NET ASSETS	
Unrestricted net assets:	
Invested in property and equipment	844,787
Board-designated	8,500
Other	699,636
Total unrestricted	1,552,923
Temporarily restricted	50,000
TOTAL NET ASSETS	1,602,923
TOTAL LIABILITIES AND NET ASSETS	\$ 2,180,023

See notes to financial statements.

HEARTS WITH A MISSION
Statement of Activities
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>
REVENUES AND SUPPORT			
Direct public support			
Fundraising events	\$ 112,885	\$ -	\$ 112,885
Individual contributions	295,333		295,333
Business contributions	117,220		117,220
Grants		281,547	281,547
Government contracts	1,045,437		1,045,437
In-kind contributions	55,453		55,453
Interest income	39		39
Miscellaneous	13,072		13,072
Other support			
Net assets released from restrictions			
Satisfaction of program restrictions	281,547	(281,547)	-
	<u>1,920,986</u>	<u>-</u>	<u>1,920,986</u>
Total direct public support			
	<u>1,920,986</u>	<u>-</u>	<u>1,920,986</u>
EXPENSES			
Program expense	1,486,166		1,486,166
Administrative expenses	159,568		159,568
Fundraising expenses	90,028		90,028
	<u>1,735,762</u>	<u>-</u>	<u>1,735,762</u>
TOTAL EXPENSES			
	<u>1,735,762</u>	<u>-</u>	<u>1,735,762</u>
CHANGE IN NET ASSETS	185,224	-	185,224
NET ASSETS BEGINNING OF YEAR	1,367,699	50,000	1,417,699
NET ASSETS END OF YEAR	<u>\$ 1,552,923</u>	<u>\$ 50,000</u>	<u>\$ 1,602,923</u>

See notes to the financial statements.

HEARTS WITH A MISSION
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Jackson County Youth Program	Josephine County Youth Program	Total Program Expenses
Salaries	\$ 477,150	\$ 489,177	\$ 966,327
Payroll taxes	37,418	38,351	75,769
Employee benefits	69,586	71,371	140,957
Other payroll related expenses	20,760	7,596	28,356
Total payroll and payroll taxes	<u>604,914</u>	<u>606,495</u>	<u>1,211,409</u>
Professional fees	3,500	3,500	7,000
Advertising	9,116	10,131	19,247
Office	7,622	7,794	15,416
Utilities	26,563	34,817	61,380
Training, travel, meetings	1,008	666	1,674
Outside services	478	977	1,455
Insurance	11,712	7,870	19,582
Fundraising events			-
Youth related expenses	34,620	32,269	66,889
Dues and subscriptions	7,348	7,706	15,054
Janitorial	2,953	3,302	6,255
New property expense	7,348	(5,800)	1,548
Interest expense	535	3,624	4,159
Depreciation	27,549	27,549	55,098
Total functional expenses	<u>\$ 745,266</u>	<u>\$ 740,900</u>	<u>\$ 1,486,166</u>
Percentage of total	<u>42.9%</u>	<u>42.7%</u>	<u>85.6%</u>

See notes to the financial statements.

Administrative Expenses	Fundraising Expenses	Total
\$ 117,767	\$ 38,728	\$ 1,122,822
9,233	3,036	88,038
17,182	5,650	163,789
		28,356
<u>144,182</u>	<u>47,414</u>	<u>1,403,005</u>
		7,000
		19,247
11,076		26,492
2,473		63,853
		1,674
		1,455
1,689		21,271
	42,614	42,614
		66,889
		15,054
148		6,403
		1,548
		4,159
		55,098
<u>\$ 159,568</u>	<u>\$ 90,028</u>	<u>\$ 1,735,762</u>
<u>9.2%</u>	<u>5.2%</u>	<u>100.0%</u>

HEARTS WITH A MISSION
Statement of Cash Flows
For the Year Ended June 30, 2018

	2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 185,224
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	55,098
(Increase) decrease in receivables	(52,027)
(Increase) decrease in prepaid expense	(3,487)
(Increase) decrease in HRA deposits	615
Increase (decrease) in accounts payable - trade	17,753
Increase (decrease) in accrued expenses	12,941
Increase (decrease) in deferred revenue	(12,300)
Total adjustments	18,593
Net Cash Provided (Used) By Operating Activities	203,817
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of improvements and equipment	(17,021)
City Life, LLC - partnership	9,541
Net Cash Provided (Used) By Investing Activities	(7,480)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds or (payments) on long-term debt	(87,857)
Net Cash Provided (Used) By Investing Activities	(87,857)
NET INCREASE (DECREASE) IN CASH	108,480
CASH AND CASH EQUIVALENTS	
BEGINNING OF YEAR	188,347
END OF YEAR	\$ 296,827
Supplemental Disclosures	
Interest paid	\$ 4,159
Non-cash transactions (in-kind contributions)	\$ 55,453

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Notes to Financial Statements
For the Year Ended June 30, 2018

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, 2018.

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, 2018

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, 2018.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2018 totaled \$19,247.

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, 2018

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, 2018.

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, 2018

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.

	2018
Land	\$ 269,000
Buildings	1,050,588
Furnishings and equipment	104,791
Vehicles	62,017
Total land, buildings, and equipment	1,486,396
Less accumulated depreciation	(179,769)
Net land, buildings, and equipment	\$ 1,306,627

Depreciation expense for the year ended June 30, 2018 \$55,098.

3. LONG-TERM DEBT

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

	2018
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.	\$ 43,322
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.	418,518
Total	461,840
Less current portion	(77,561)
Total long-term debt	\$ 384,279

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2018

3. LONG-TERM DEBT (Continued)

Maturities of long-term debt as of June 30, 2018, are as follows:

June 30, 2019	\$ 77,561
June 30, 2020	34,552
June 30, 2021	34,867
June 30, 2022	35,186
June 30, 2023	35,507
June 30, 2024 - 2028	182,476
June 30, 2029 - 2031	<u>61,691</u>
 Total	 <u><u>\$ 461,840</u></u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>2018</u>
Funds designated for the purchase of building and land	<u><u>\$ 50,000</u></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, 2018 was \$297,614. As of June 30, 2018, 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, 2018:

Ford Family Foundation	\$ 75,000
United Community Action Network	60,000
Carrico Family Foundation	25,000
Meyer Memorial Trust	35,000
United Way	8,547
Art Dubs Foundation	10,000
West Family Foundation	50,000
Miscellaneous grants	<u>18,000</u>
 Total	 <u><u>\$ 281,547</u></u>

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2018

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 \$55,453 during the fiscal year ended June 30, 2018.

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 marketing agreement with First Community Credit Union on March 7, 2017. 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 September 30, 2018, which is the date of the Audit Report. The report was available to be issued on October 17, 2018.