

**HEARTS WITH A MISSION**

**AUDIT REPORT**

**For the Year Ended**

**June 30, 2019**

**RICHARD W. BREWSTER, CPA, PC**

CERTIFIED PUBLIC ACCOUNTANT  
MEDFORD



**HEARTS WITH A MISSION**  
*For the Year Ended June 30, 2019*

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**INDEPENDENT AUDITOR'S REPORT**



# **RICHARD W. BREWSTER, CPA, PC**

CERTIFIED PUBLIC ACCOUNTANT

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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 organization), which comprise the statement of financial position as of June 30, 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**

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, 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.



Richard W. Brewster  
Certified Public Accountant





## **FINANCIAL STATEMENTS**

**HEARTS WITH A MISSION**  
**Statement of Financial Position**  
*June 30, 2019*

	<b>2019</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 168,970
Prepaid expense	2,300
Governmental contracts receivable	215,814
Grant receivable	25,386
Total current assets	412,470
Land, buildings, and equipment	1,766,054
Less accumulated depreciation	(239,012)
Net buildings and equipment	1,527,042
Other assets	
City Life, LLC - partnership	396,191
Total other assets	396,191
<b>TOTAL ASSETS</b>	<b>\$ 2,335,703</b>
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 16,010
Accrued payroll	56,768
Line of credit	52,336
Vacation payable	32,003
Deferred revenue	26,000
Current portion of long-term debt	34,252
Total current liabilities	217,369
Long-term debt	348,337
<b>TOTAL LIABILITIES</b>	<b>565,706</b>
<b>NET ASSETS</b>	
Without donor restrictions	1,769,997
With donor restrictions	-
<b>TOTAL NET ASSETS</b>	<b>1,769,997</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,335,703</b>

See notes to financial statements.

**HEARTS WITH A MISSION**  
**Statement of Activities**  
*For the Year Ended June 30, 2019*

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>
<b>REVENUES AND SUPPORT</b>			
Direct public support			
Fundraising events	\$ 161,020	\$ -	\$ 161,020
Individual contributions	341,303		341,303
Business contributions	117,220		117,220
Grants		146,933	146,933
Government contracts	1,352,833		1,352,833
In-kind contributions	92,650		92,650
Interest income	584		584
Miscellaneous	18,916		18,916
Other support			
Net assets released from restrictions			
Satisfaction of program restrictions	196,933	(196,933)	-
	<u>2,281,459</u>	<u>(50,000)</u>	<u>2,231,459</u>
<b>Total direct public support</b>			
	<u>2,281,459</u>	<u>(50,000)</u>	<u>2,231,459</u>
<b>EXPENSES</b>			
Program expense	1,784,227		1,784,227
Administrative expenses	206,242		206,242
Fundraising expenses	73,916		73,916
	<u>2,064,385</u>	<u>-</u>	<u>2,064,385</u>
<b>TOTAL EXPENSES</b>			
	<u>2,064,385</u>	<u>-</u>	<u>2,064,385</u>
<b>CHANGE IN NET ASSETS</b>	217,074	(50,000)	167,074
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>1,552,923</u>	<u>50,000</u>	<u>1,602,923</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$ 1,769,997</u>	<u>\$ -</u>	<u>\$ 1,769,997</u>

See notes to the financial statements.

**HEARTS WITH A MISSION**  
**Statement of Functional Expenses**  
*For the Year Ended June 30, 2019*

	<b>Jackson County Youth Program</b>	<b>Josephine County Youth Program</b>	<b>Lincoln County Youth Program</b>
Salaries	\$ 607,257	\$ 505,591	\$ 6,191
Payroll taxes	61,824	45,794	524
Employee benefits	49,166	47,014	2,278
Other payroll related expenses	11,942	9,818	
Total payroll and payroll taxes	<u>730,189</u>	<u>608,217</u>	<u>8,993</u>
Professional fees	4,000	4,000	
Advertising	6,984	4,647	5,135
Office	17,687	14,682	1,262
Occupancy	36,565	18,413	499
Utilities	10,571	10,735	-
Training, travel, meetings	1,271	1,445	664
Outside services	24,678	20,939	397
Insurance	12,801	10,236	
Fundraising events	66,203	11,956	
Youth related expenses	52,522	25,780	1,150
Janitorial	5,294	2,978	
Miscellaneous		20	
Interest expense		4,071	
Depreciation	29,622	29,621	
Total functional expenses	<u>\$ 998,387</u>	<u>\$ 767,740</u>	<u>\$ 18,100</u>
Percentage of total	<u>48.4%</u>	<u>37.2%</u>	<u>1.0%</u>

See notes to the financial statements.

<b>Total Program Expenses</b>	<b>Administrative Expenses</b>	<b>Fundraising Expenses</b>	<b>2019 Total</b>
\$ 1,119,039	\$ 174,719	\$ 52,399	\$ 1,346,157
108,142	15,794	10,876	134,812
98,458	10,685		109,143
21,760			21,760
<u>1,347,399</u>	<u>201,198</u>	<u>63,275</u>	<u>1,611,872</u>
8,000			8,000
16,766			16,766
33,631		10,617	44,248
55,477	537		56,014
21,306	2,000		23,306
3,380			3,380
46,014			46,014
23,037	2,179		25,216
78,159			78,159
79,452		24	79,476
8,272			8,272
20			20
4,071	328		4,399
59,243			59,243
<u>\$ 1,784,227</u>	<u>\$ 206,242</u>	<u>\$ 73,916</u>	<u>\$ 2,064,385</u>
<u>86.4%</u>	<u>10.0%</u>	<u>3.6%</u>	<u>100.0%</u>

**HEARTS WITH A MISSION**  
**Statement of Cash Flows**  
*For the Year Ended June 30, 2019*

	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 167,074
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	59,243
(Increase) decrease in receivables	(82,472)
(Increase) decrease in prepaid expense	1,187
(Increase) decrease in HRA deposits	9,478
Increase (decrease) in accounts payable - trade	(16,740)
Increase (decrease) in accrued expenses	6,261
Increase (decrease) in line of credit	52,336
Total adjustments	55,293
<b>Net Cash Provided (Used) By Operating Activities</b>	222,367
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of improvements and equipment	(279,658)
City Life, LLC - partnership	8,685
<b>Net Cash Provided (Used) By Investing Activities</b>	(270,973)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net proceeds or (payments) on long-term debt	(79,251)
<b>Net Cash Provided (Used) By Investing Activities</b>	(79,251)
<b>NET INCREASE (DECREASE) IN CASH</b>	(127,857)
<b>CASH AND CASH EQUIVALENTS</b>	
<b>BEGINNING OF YEAR</b>	296,827
<b>END OF YEAR</b>	\$ 168,970
Supplemental Disclosures	
Interest paid	\$ 4,399
Non-cash transactions (in-kind contributions)	\$ 92,650

See notes to the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**HEARTS WITH A MISSION**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2019*

**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 32 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 182 youth during the fiscal year ending June 30, 2019.

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 financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205 *Financial Statements of Not-for-Profit Organizations*. During 2018, the Organization adopted the provisions of Accounting Standards Update ASU 2016-14: Not-for-Profit-Entities (Topic 958) Presentation of financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the financial statements and the notes about the Council's liquidity, financial performance, and cash flows.

Under this guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

**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 the organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

**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 Non-Profit 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.



**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2019*

**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, 2019.

**ADVERTISING**

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2019 totaled \$16,766.

**GRANT RECEIVABLE**

The current receivable of \$25,386 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, 2019*

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

**CONTRIBUTIONS**

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are in place.

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 240 hours.

**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, 2019.

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, 2019*

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

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In February 2016, the FASB issued ASU No. 2016-2, Leases (Topic 842). This ASU requires that a lease liability and related right-of-use-asset represent the lessee's right to use or control the asset recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities, which changes the current guidance for asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. ASU reduces the required number of classes of net assets from three to two: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profits to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated. In addition, to the current required disclosure of the aggregate amount by which endowment funds are underwater, ASU 2016-14 requires not-for-profit entities to disclose the aggregate fair value of such funds as well as the aggregate original gift amounts to be maintained. ASU 2016-14 also requires disclosure of its interpretation of the ability to spend from underwater endowment funds including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. All underwater endowment funds will be classified as part of net assets with donor restrictions rather than as a charge to unrestricted net assets as per the current rules. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either direct method or the indirect method. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. ASU 2016-14 has been retroactively applied to the financial statements as of and for the fiscal year ending June 30, 2018.

Upon adopting FASB's issued ASU 2016-14, the Organization retroactively changed the prior year's temporarily restricted net assets of \$50,000 to With Donor Restrictions of \$50,000 as of June 30, 2018.

**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2019*

**2. LIQUIDITY AND AVAILABILITY OF FUNDS**

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 168,970
Receivables	215,814
Pledges receivable	25,386
Total financial assets available to meet expenditures within the next 12 months	<u><u>\$ 410,170</u></u>

**3. 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.

	<u>2019</u>
Land	\$ 269,000
Buildings	1,287,742
Furnishings and equipment	110,850
Vehicles	<u>98,462</u>
Total land, buildings, and equipment	1,766,054
Less accumulated depreciation	<u>(239,012)</u>
Net land, buildings, and equipment	<u><u>\$ 1,527,042</u></u>

Depreciation expense for the year ended June 30, 2019 \$59,243.

**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2019*

**4. LONG-TERM DEBT**

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

	<b>2019</b>
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.	\$ 382,589
Total	382,589
Less current portion	(34,252)
Total long-term debt	\$ 348,337

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

June 30, 2020	\$ 34,252
June 30, 2021	34,596
June 30, 2022	34,943
June 30, 2023	35,294
June 30, 2024	35,649
June 30, 2025 - 2029	183,689
June 30, 2030 - 2031	24,166
Total	\$ 382,589

**5. CONCENTRATION OF RISK**

The Organization holds all its cash deposits at Banner Bank and First Community Credit Union. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The total bank balance at June 30, 2019 was \$166,962. As of June 30, 2019, none of the deposits were in excess of the FDIC insurance limit.

**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2019*

**6. GRANTS**

The Organization received the following grants for operating expenses during the year ended June 30, 2019:

Ford Family Foundation	\$ 40,000
Carrico Family Foundation	25,000
United Way	8,547
Art Dubs Foundation	40,000
Reed and Carolee Walker Fund	26,000
Miscellaneous grants	<u>7,386</u>
Total	<u><u>\$ 146,933</u></u>

**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 \$92,650 during the fiscal year ended June 30, 2019.

**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 Functional Expense. Accordingly, certain costs have been allocated among the shelter, administrative and fundraising categories based on benefit received. When there are joint costs, these amounts are allocated based on payroll allocations and time spent.

**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 DHS, UCAN, City of Medford, City of Grants Pass, Department of Education, and other agencies.

**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2019*

**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 October 18, 2019, which is the date of the Audit Report. The report was available to be issued on October 21, 2019.

