

HEARTS WITH A MISSION

AUDIT REPORT

For the Year Ended

June 30, 2020

RICHARD W. BREWSTER, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT
MEDFORD

HEARTS WITH A MISSION
For the Year Ended June 30, 2020

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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, 2020, 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

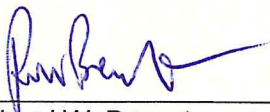
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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, 2020, 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 15, 2020

FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Statement of Financial Position
June 30, 2020

	2020
ASSETS	
Current assets	
Cash and cash equivalents	\$ 585,924
Cash and cash equivalents temporarily restricted	106,500
Prepaid expense	300
Governmental contracts receivable	136,701
Total current assets	829,425
Land, buildings, and equipment	2,067,463
Less accumulated depreciation	(307,846)
Net buildings and equipment	1,759,617
Other assets	
City Life, LLC - partnership	386,013
Total other assets	386,013
TOTAL ASSETS	\$ 2,975,055
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 22,510
Accrued payroll	72,502
Vacation payable	54,907
Deferred revenue	106,500
PPP Loan	305,500
Current portion of long-term debt	45,592
Total current liabilities	607,511
Long-term debt	696,605
TOTAL LIABILITIES	1,304,116
NET ASSETS	
Without donor restrictions	1,670,939
With donor restrictions	-
TOTAL NET ASSETS	1,670,939
TOTAL LIABILITIES AND NET ASSETS	\$ 2,975,055

See notes to financial statements.

HEARTS WITH A MISSION
Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	2020 Total
REVENUES AND SUPPORT			
Direct public support			
Fundraising events	\$ 144,555	\$ -	\$ 144,555
Individual contributions	289,976		289,976
Business contributions	189,130		189,130
Grants		156,893	156,893
Government contracts	1,283,759		1,283,759
In-kind contributions	100,195		100,195
Interest income	299		299
Miscellaneous	2,254		2,254
Service revenue and reimbursements	224,893		224,893
Other support			
Net assets released from restrictions			
Satisfaction of program restrictions	156,893	(156,893)	-
Total direct public support	2,391,954	-	2,391,954
Total revenue and support	2,391,954	-	2,391,954
EXPENSES			
Program expense	2,151,225		2,151,225
Administrative expenses	244,119		244,119
Fundraising expenses	95,668		95,668
TOTAL EXPENSES	2,491,012	-	2,491,012
CHANGE IN NET ASSETS	(99,058)	-	(99,058)
NET ASSETS BEGINNING OF YEAR	1,769,997	-	1,769,997
NET ASSETS END OF YEAR	\$ 1,670,939	\$ -	\$ 1,670,939

See notes to the financial statements.

HEARTS WITH A MISSION
Statement of Functional Expenses
For the Year Ended June 30, 2020

	Jackson County Youth Program	Josephine County Youth Program	Lincoln County Youth Program	Safe Families Program
Salaries	\$ 731,140	\$ 499,083	\$ 42,001	\$ 87,071
Payroll taxes	56,479	40,247	3,710	4,758
Employee benefits	90,445	50,045	5,732	8,682
Other payroll related expenses	30,915	24,024	2,404	
Total payroll and payroll taxes	<u>908,979</u>	<u>613,399</u>	<u>53,847</u>	<u>100,511</u>
Professional fees	4,465	4,200		
Bank charges	8,299	328	15	5
Outside services	56,249	32,363	5,202	
Advertising	7,276	4,086	2,404	
Office	13,402	11,018	1,113	26
Occupancy	76,870	33,389	3,095	499
Utilities	12,343	9,660	-	-
Training, travel, meetings	695	606	532	619
Insurance	17,616	7,432	259	517
*Fundraising events	27,972	1,044	-	
Youth related expenses	27,072	11,962	330	
Janitorial				
Miscellaneous	3,713	3,294	673	
Postage	576	179	295	
Interest expense		11,933		
Depreciation	35,432	35,431		
Total functional expenses	<u>\$ 1,200,959</u>	<u>\$ 780,324</u>	<u>\$ 67,765</u>	<u>\$ 102,177</u>
Percentage of total	<u>48.2%</u>	<u>31.3%</u>	<u>3.4%</u>	<u>4.1%</u>

* Fundraising expense above includes \$10,467 of expense that directly benefited donors at the special events.

See notes to the financial statements.

Total Program Expenses	Administrative Expenses	Fundraising Expenses	2020 Total
\$ 1,359,295	\$ 207,726	\$ 95,668	\$ 1,662,689
105,194	18,682		123,876
154,904	15,568		170,472
57,343			57,343
<u>1,676,736</u>	<u>241,976</u>	<u>95,668</u>	<u>2,014,380</u>
8,665			8,665
8,647			8,647
93,814			93,814
13,766			13,766
25,559	12		25,571
113,853	-		113,853
22,003	1,750		23,753
2,452			2,452
25,824	281		26,105
29,016			29,016
39,364			39,364
-			-
7,680	100		7,780
1,050			1,050
11,933			11,933
70,863			70,863
<u>\$ 2,151,225</u>	<u>\$ 244,119</u>	<u>\$ 95,668</u>	<u>\$ 2,491,012</u>
<u>86.4%</u>	<u>9.8%</u>	<u>3.8%</u>	<u>100.0%</u>

HEARTS WITH A MISSION
Statement of Cash Flows
For the Year Ended June 30, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (99,058)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	70,863
(Increase) decrease in receivables	104,499
(Increase) decrease in prepaid expense	2,000
(Increase) decrease in HRA deposits	-
Increase (decrease) in accounts payable - trade	6,500
Increase (decrease) in accrued expenses	38,638
Increase (decrease) in line of credit	(52,336)
Increase (decrease) in Cares Act PPP loan	305,500
Increase (decrease) in deferred revenue	80,500
Total adjustments	556,164
Net Cash Provided (Used) By Operating Activities	457,106
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of improvements and equipment	(301,409)
City Life, LLC - partnership	10,178
Net Cash Provided (Used) By Investing Activities	(291,231)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from debt issuance	400,000
Payments on long-term debt	(42,421)
Net Cash Provided (Used) By Investing Activities	357,579
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	523,454
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	
BEGINNING OF YEAR	168,970
END OF YEAR	\$ 692,424
Supplemental Disclosures	
Interest paid	\$ 11,933
Non-cash transactions (in-kind contributions)	\$ 100,195

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Notes to Financial Statements
For the Year Ended June 30, 2020

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, 2020.

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.

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements of Heart with a Mission have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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. These net assets may be used at the discretion of the Organizations management and board of directors.

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 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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of operations – the statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organizations ongoing programmatic mission. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature, if any.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

The Organization cash consists of cash on deposit with banks and credit unions. All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

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.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2020 totaled \$13,766.

REVENUE RECOGNITION

The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization records the following exchange transaction revenue in its statement of activities and changes in net assets for the year ending June 30, 2020.

Government contracts – The Organization provides services to teens based on local and state contracts. The performance obligation is met when services are rendered. Revenues for these services are recorded and considered earned when billed after completion of the services. Contracts with the state and local government do not require an allowance for doubtful accounts based on payment history.

Fundraising events - The Organization conducts special events in which a portion of the proceeds received by participants represents a direct cost of the benefits received by the participant. The exchange component and portion represent a contribution. The fair value of meals and entertainment provided at special events is measured at actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events ultimately benefit the donor not the Organization. The performance obligation is met upon completion of the event.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
REVENUE RECOGNITION (Continued)

Other Revenue – consists primarily of rent revenue and miscellaneous reimbursements. These revenues are recognized on a monthly basis as earned.

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.

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.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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). The Organization is subject to tax on income unrelated to its exempt purpose. The Organization has no unrelated business income and accordingly has not made provision for income taxes in these financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) effective January 01, 2019. Topic 606 was adopted on a modified retrospective basis, and the Company determined that there was no cumulative effect to retained earnings as of January 1, 2019 that was required to be disclosed as a result of adopting the standard.

This ASU will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

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	\$ 692,424
Receivables	136,701
Total financial assets available to meet expenditures within the next 12 months	<u>\$ 829,125</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures and other obligations come due. In addition, it has borrowing mechanisms in place such as a line of credit with Banner Bank for \$100,000 and credit cards to meet unexpected obligations.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

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.

	2020
Land	\$ 269,000
Buildings	1,566,084
Furnishings and equipment	131,786
Vehicles	100,593
Total land, buildings, and equipment	2,067,463
Less accumulated depreciation	(307,846)
Net land, buildings, and equipment	\$ 1,759,617

Depreciation expense for the year ended June 30, 2020 \$70,863.

4. FAIR VALUE MEASUREMENTS

The Organization has adopted ASC 820-10 which establishes a framework for measuring fair value and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

ASC 820-10 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.).

Level 3: Significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments).

The Organization's one partnership and investment property is based upon its own market assumptions and is therefore considered Level 3 as of June 30, 2020.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

The following table sets forth, by level within the fair value hierarchy, the Organization's investments measured at fair value as follows:

Description	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
City Life, LLC - partnership	\$ -	\$ -	\$ 386,013	\$ 386,013
Total investments at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 386,013</u>	<u>\$ 386,013</u>

5. LONG-TERM DEBT

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

	<u>2020</u>
Mortgage with Rogue Credit Union. Note is a 10 year mortgage with monthly payments of \$2,027 for 59 months at 3.5% interest. Then the interest rate changes to 6.625%, requiring an additional 60 months payments . This note has a scheduled balloon payment of \$283,146 due on November 10, 2029. Real property is pledged as collateral.	\$ 394,008
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.	<u>348,189</u>
Total	742,197
Less current portion	<u>(45,592)</u>
Total long-term debt	<u>\$ 696,605</u>

Maturities of long-term debt as of June 30, 2020, are as follows:

June 30, 2021	\$ 45,592
June 30, 2022	46,292
June 30, 2023	47,009
June 30, 2024	47,742
June 30, 2025	48,493
June 30, 2026 - 2031	<u>507,069</u>
Total	<u>\$ 742,197</u>

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

6. 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, 2020 in excess of the FDIC insurance limit was \$122. The Organization utilizes three different financial institutions to limit the amount of funds in excess of the FDIC insurance limit throughout the fiscal year.

7. GRANTS

The Organization received the following grants for operating expenses during the year ended June 30, 2020:

Allcare Health	\$ 25,000
Carrico Family Foundation	25,000
United Way	8,000
Arthur Dubs Foundation	26,335
Oregon Community Foundation	30,056
Sprit Mountain Community Foundation	25,000
Miscellaneous grants	<u>17,502</u>
Total	<u>\$ 156,893</u>

8. 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 \$100,195 during the fiscal year ended June 30, 2020.

9. 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. Most expenses can be directly attributed to the program or supporting functions. Certain categories of expenses are attributed to more than one program or supporting function. Accordingly, these costs have been allocated on a basis that is consistently applied among the shelter, administrative and fundraising categories. The expenses in this category include occupancy, outside services, advertising, insurance, and salaries and benefits. Joint cost allocations are based upon payroll time studies completed every three years.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2020

10. 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.

11. 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.

12. RELATED PARTY TRANSACTIONS

The Organization formed a jointly owned LLC known as City Life, LLC with Youth 71Five Ministries. City Life, LLC constructed a building on the adjacent property for both organizations to utilize. Youth 71Five Ministries 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.

13. SUBSEQUENT EVENTS

During 2020, the World Health Organization declared the outbreak of the coronavirus (Covid-19) as a world pandemic which continues to spread throughout the United States. As a result of Covid-19, the Organization's operations and number of visitors at their facility is expected to be reduced which can have a negative impact on financial resources.

The Organization has evaluated subsequent events through September 15, which is the date of the Audit Report. The report was available to be issued on September 22, 2020.

