

HEARTS WITH A MISSION

AUDIT REPORT

For The Year Ended

June 30, 2015

RICHARD W. BREWSTER, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT
MEDFORD

HEARTS WITH A MISSION
For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

RICHARD W. BREWSTER, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT

670 SUPERIOR COURT, #106
MEDFORD, OREGON 97504
(541) 773-1885 · FAX (541) 770-1430
www.rwbrewstercpa.com

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, 2015, 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

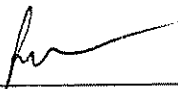
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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, 2015, 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 2, 2015

FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Statement of Financial Position
June 30, 2015

	2015
ASSETS	
Current assets	
Cash and cash equivalents	\$ 74,595
Grant receivable	100,000
Total current assets	174,595
Buildings and equipment	508,506
Less accumulated depreciation	(54,257)
Net buildings and equipment	454,249
Other assets	
Grant receivable, long-term portion	100,000
City Life, LLC - partnership	450,871
Total other assets	550,871
TOTAL ASSETS	\$ 1,179,715
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 2,035
Accrued payroll	23,438
Vacation payable	10,723
Current portion of long-term debt	5,948
Total current liabilities	42,144
Long-term debt	177,949
TOTAL LIABILITIES	220,093
NET ASSETS	
Temporarily restricted	200,000
Unrestricted	759,622
TOTAL NET ASSETS	959,622
TOTAL LIABILITIES AND NET ASSETS	\$ 1,179,715

See notes to financial statements.

HEARTS WITH A MISSION
Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	2015 Total
REVENUES AND SUPPORT			
Direct public support			
Shelter fee for service	\$ 733		\$ 733
Fundraising events	131,778		131,778
Individual contributions	212,708		212,708
Business contributions	59,864		59,864
Faith based contributions	38,629		38,629
Grants		\$ 122,980	122,980
Government contracts	185,996		185,996
In-kind contributions	41,206		41,206
Interest income	15		15
Other support			
Net assets released from restrictions			
Satisfaction of program restrictions	122,980	(122,980)	-
Total direct public support	793,909	-	793,909
Total revenue and support	793,909	-	793,909
EXPENSES			
Shelter expense	591,829		591,829
Administrative expenses	73,670		73,670
Fundraising expenses	75,298		75,298
TOTAL EXPENSES	740,797	-	740,797
CHANGE IN NET ASSETS	53,112	-	53,112
NET ASSETS BEGINNING OF YEAR	706,510	200,000	906,510
NET ASSETS END OF YEAR	\$ 759,622	\$ 200,000	\$ 959,622

See notes to the financial statements.

HEARTS WITH A MISSION
Statement of Functional Expenses
For the Year Ended June 30, 2015

	<u>Shelter Expenses</u>	<u>Administrative Expenses</u>	<u>Fundraising Expenses</u>	<u>Total</u>
Salaries	\$ 382,199	\$ 58,056	\$ 43,542	\$ 483,796
Payroll taxes	34,133	5,185	3,889	43,206
Employee benefits	31,355	4,763	3,572	39,690
Total payroll and payroll taxes	<u>447,687</u>	<u>68,003</u>	<u>51,002</u>	<u>566,692</u>
Professional fees		4,127		4,127
Advertising	11,836			11,836
Office	11,034	1,540	257	12,830
Utilities	10,309			10,309
Training, travel, meetings	6,614			6,614
Outside services	17,601			17,601
Insurance	11,569			11,569
Fundraising events			24,039	24,039
Youth related expenses	39,746			39,746
Dues and subscriptions	4,459			4,459
Janitorial	7,580			7,580
New property expense	380			380
Interest expense	9,886			9,886
Depreciation	13,129			13,129
Total functional expenses	<u>\$ 591,829</u>	<u>\$ 73,670</u>	<u>\$ 75,298</u>	<u>\$ 740,797</u>
Percentage of total	<u>79.9%</u>	<u>9.9%</u>	<u>10.2%</u>	<u>100.0%</u>

See notes to the financial statements.

HEARTS WITH A MISSION
Statement of Cash Flows
For the Year Ended June 30, 2015

	2015
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 53,112
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	13,129
Increase (decrease) in accounts payable - trade	(1,968)
Increase (decrease) in accrued expenses	10,174
Total adjustments	21,335
Net Cash Provided (Used) By Operating Activities	74,447
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of vehicles and equipment	(22,559)
Other investments	(38,523)
Net Cash Provided (Used) By Investing Activities	(61,082)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds or (payments) on long-term debt	(31,217)
Net Cash Provided (Used) By Investing Activities	(31,217)
NET INCREASE (DECREASE) IN CASH	(17,852)
CASH AND CASH EQUIVALENTS	
BEGINNING OF YEAR	92,447
END OF YEAR	\$ 74,595
Supplemental Disclosures	
Interest paid	\$ 9,886
Non-cash transactions (in-kind contributions)	\$ 41,206

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

HEARTS WITH A MISSION
Notes to Financial Statements
For the Year Ended June 30, 2015

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 community of 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 one location with 16 beds available for use nightly. The Organization served 108 youth during the fiscal year ending June 30, 2015.

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.

This year ending June 30, 2015, the Organization decided to change to a fiscal year end. Previously, the Organization reported its financial statements and income tax return based on a calendar year. The change was made to better align itself with other organizations who provide funding. This will then allow for easier financial reporting.

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, 2015

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, 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 and are considered to be owned by the Organization. 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, 2015.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2015 totaled \$11,836.

GRANT RECEIVABLE

The current receivable of \$200,000 is expected to be collected over the next three years. There are two payments of \$50,000 due in the next fiscal year (totaling \$100,000), with the remaining spread over the following two years (\$50,000 each 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, 2015

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 employee 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, 2015.

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, 2015

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.

	2015
Land	\$ 124,000
Buildings	324,423
Furnishings and equipment	27,448
Vehicles	32,635
Total buildings and equipment	508,506
Less accumulated depreciation	(54,257)
Net buildings and equipment	\$ 454,249

Depreciation expense for the year ended June 30, 2015 \$13,129.

3. LONG-TERM DEBT

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

	2015
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%. Real property is pledged as collateral.	\$ 183,897
Less current portion	(5,948)
Total long-term debt	\$ 177,949

Maturities of long-term debt as of June 30, 2015, are as follows:

June 30, 2016	\$ 5,948
June 30, 2017	177,949
Total	\$ 183,897

This loan was used to purchase the adjacent property next to the Organization for future expansion.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2015

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	2015
Funds designated for the purchase of building and land	\$ 200,000

5. CONCENTRATION OF RISK

The Organization holds all of its cash deposits at AmericanWest 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, 2015 was \$80,357.

6. GRANTS

The Organization received the following grants for operating expenses during the year ended June 30, 2015:

Qualcomm Matching Grant Program	\$ 24,500
The Ford Family Foundation	40,200
The West Family Foundation	10,000
The Oregon Community Foundation	15,000
Chaney Family Foundation	7,500
Umpqua Tribe of Indians	7,500
Anna May Family Foundation	4,000
Raymond Family Foundation	2,500
Other organizations	11,780
Total	\$ 122,980

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 \$41,206 during the fiscal year ended June 30, 2015.

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.

HEARTS WITH A MISSION
Notes to Financial Statements (continued)
For the Year Ended June 30, 2015

9. COMMITMENTS

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

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 Program (SHAP). The current agreement is from July 1, 2014 through June 15, 2015. The Organization received a total of \$82,628 of SHAP funding during the year ending June 30, 2015. The remaining \$185,996 reported under government contracts is from the City of Medford, Department of Education, Department of Human Services, 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 66% interest and HWAM will own 34% 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 2, 2015, which is the date of the Audit Report. The report was available to be issued on September 18, 2015.

