

**HEARTS WITH A MISSION**

**AUDIT REPORT**

**For The Year Ended**

**June 30, 2016**

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

CERTIFIED PUBLIC ACCOUNTANT  
MEDFORD



**HEARTS WITH A MISSION**  
*For the Year Ended June 30, 2016*

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11



**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, 2016, 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, 2016, 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, 2016





## **FINANCIAL STATEMENTS**

**HEARTS WITH A MISSION**  
**Statement of Financial Position**  
*June 30, 2016*

	<b>2016</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 215,991
Cash and cash equivalents temporarily restricted	87,921
Grant receivable	50,000
Total current assets	353,912
Buildings and equipment	1,247,765
Less accumulated depreciation	(78,066)
Net buildings and equipment	1,169,699
Other assets	
Grant receivable, long-term portion	50,000
City Life, LLC - partnership	442,871
Total other assets	492,871
<b>TOTAL ASSETS</b>	<b>\$ 2,016,482</b>
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 31,951
Accrued payroll	34,033
Vacation payable	20,809
Deferred revenue	56,921
Current portion of long-term debt	100,589
Total current liabilities	244,303
Long-term debt	487,705
<b>TOTAL LIABILITIES</b>	<b>732,008</b>
<b>NET ASSETS</b>	
Temporarily restricted	131,000
Unrestricted	1,153,474
<b>TOTAL NET ASSETS</b>	<b>1,284,474</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,016,482</b>

See notes to financial statements.

**HEARTS WITH A MISSION**  
**Statement of Activities**  
*For the Year Ended June 30, 2016*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>
<b>REVENUES AND SUPPORT</b>			
Direct public support			
Fundraising events	\$ 137,950		\$ 137,950
Individual contributions	222,449		222,449
Business contributions	45,364	\$ 346,690	392,054
Faith based contributions	84,355		84,355
Grants		308,346	308,346
Government contracts	115,172		115,172
In-kind contributions	24,193		24,193
Interest income	8		8
Other support			
Net assets released from restrictions			
Satisfaction of program restrictions	724,036	(724,036)	-
Total direct public support	<u>1,353,527</u>	<u>(69,000)</u>	<u>1,284,527</u>
<b>Total revenue and support</b>	<u>1,353,527</u>	<u>(69,000)</u>	<u>1,284,527</u>
<b>EXPENSES</b>			
Program expense	766,463		766,463
Administrative expenses	105,490		105,490
Fundraising expenses	87,722		87,722
<b>TOTAL EXPENSES</b>	<u>959,675</u>	<u>-</u>	<u>959,675</u>
<b>CHANGE IN NET ASSETS</b>	393,852	(69,000)	324,852
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>759,622</u>	<u>200,000</u>	<u>959,622</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$ 1,153,474</u>	<u>\$ 131,000</u>	<u>\$ 1,284,474</u>

See notes to the financial statements.

**HEARTS WITH A MISSION**  
**Statement of Functional Expenses**  
*For the Year Ended June 30, 2016*

	<b>Medford Shelter</b>	<b>Jackson County Host Home</b>	<b>Grants Pass Shelter</b>	<b>Josephine County Host Home</b>
Salaries	\$ 330,345	\$ 57,605	\$ 63,583	\$ 41,759
Payroll taxes	35,250	6,147	6,785	4,456
Employee benefits	25,634	4,470	4,934	3,240
Total payroll and payroll taxes	<u>391,229</u>	<u>68,222</u>	<u>75,302</u>	<u>49,455</u>
Professional fees				
Advertising	10,255	505	10,212	775
Office	25,506	1,020	1,208	
Utilities	7,463		63	
Training, travel, meetings	6,572	897	2,526	338
Outside services	17,043	2,226		
Insurance	11,393			
Fundraising events				
Youth related expenses	47,194	397	253	
Dues and subscriptions	1,959		1,000	
Janitorial	2,041		10	
New property expense			2,553	
Interest expense	4,332		705	
Depreciation	23,809			
Total functional expenses	<u>\$ 548,796</u>	<u>\$ 73,267</u>	<u>\$ 93,832</u>	<u>\$ 50,568</u>
Percentage of total	<u>71.6%</u>	<u>9.6%</u>	<u>12.2%</u>	<u>6.6%</u>

See notes to the financial statements.

<b>Total Program Expenses</b>	<b>Administrative Expenses</b>	<b>Fundraising Expenses</b>	<b>Total</b>
\$ 493,292	\$ 76,610	\$ 42,231	\$ 612,133
52,638	8,175	4,506	65,319
38,278	5,945	3,277	47,500
<u>584,208</u>	<u>90,730</u>	<u>50,014</u>	<u>724,952</u>
-	10,896		10,896
21,747			21,747
27,734	3,225	913	31,872
7,526			7,526
10,333	111		10,444
19,269			19,269
11,393	528		11,921
-		36,795	36,795
47,844			47,844
2,959			2,959
2,051			2,051
2,553			2,553
5,037			5,037
23,809			23,809
<u>\$ 766,463</u>	<u>\$ 105,490</u>	<u>\$ 87,722</u>	<u>\$ 959,675</u>
<u>79.9%</u>	<u>11.0%</u>	<u>9.1%</u>	<u>100.0%</u>

**HEARTS WITH A MISSION**  
**Statement of Cash Flows**  
*For the Year Ended June 30, 2016*

	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 324,852
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	23,809
(Increase) decrease in grant receivable	100,000
Increase (decrease) in accounts payable - trade	29,916
Increase (decrease) in accrued expenses	20,681
Increase (decrease) in deferred revenue	56,921
Total adjustments	231,327
<b>Net Cash Provided (Used) By Operating Activities</b>	556,179
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of buildings and equipment	(739,259)
Other investments	8,000
<b>Net Cash Provided (Used) By Investing Activities</b>	(731,259)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net proceeds or (payments) on long-term debt	404,397
<b>Net Cash Provided (Used) By Investing Activities</b>	404,397
<b>NET INCREASE (DECREASE) IN CASH</b>	229,317
<b>CASH AND CASH EQUIVALENTS</b>	
<b>BEGINNING OF YEAR</b>	74,595
<b>END OF YEAR</b>	\$ 303,912
Supplemental Disclosures	
Interest paid	\$ 5,037
Non-cash transactions (in-kind contributions)	\$ 24,193
Donation of property	\$ 90,000

See notes to the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**HEARTS WITH A MISSION**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2016*

**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, 2016.

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, 2016, 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, 2016*

**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, 2016.

**ADVERTISING**

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2016 totaled \$21,747.

**GRANT RECEIVABLE**

The current receivable of \$100,000 is expected to be collected over the next two years. There are two payments of \$50,000 due (totaling \$100,000), spread over the next two fiscal 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, 2016*

**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, 2016.

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, 2016*

**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.

	<b>2016</b>
Land	\$ 269,000
Buildings	900,226
Furnishings and equipment	45,904
Vehicles	32,635
Total buildings and equipment	1,247,765
Less accumulated depreciation	(78,066)
Net buildings and equipment	<u>\$ 1,169,699</u>

Depreciation expense for the year ended June 30, 2016 \$23,809.

**3. LONG-TERM DEBT**

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

	<b>2016</b>
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.	\$ 100,589
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.	487,705
Total	588,294
Less current portion	(100,589)
Total long-term debt	<u>\$ 487,705</u>

**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2016*

**3. LONG-TERM DEBT (Continued)**

Maturities of long-term debt as of June 30, 2016, are as follows:

June 30, 2017	\$ 100,589
June 30, 2018	32,943
June 30, 2019	33,272
June 30, 2020	33,593
June 30, 2021	33,941
June 30, 2022 - 2026	174,857
June 30, 2027 - 2031	<u>179,099</u>
Total	<u>\$ 588,294</u>

**4. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following:

	<u><b>2016</b></u>
Funds designated for the purchase of building and land	<u>\$ 131,000</u>

**5. CONCENTRATION OF RISK**

The Organization holds all of its cash deposits at Banner Bank and People's Bank. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The total bank balance at June 30, 2016 was \$360,395. As of June 30, 2016, \$108,234 was in excess of the FDIC insurance limit.

**6. GRANTS**

The Organization received the following grants for operating expenses during the year ended June 30, 2016:

Department of Human Services	\$ 162,500
The West Family Foundation	100,000
Meyer Memorial Trust	45,000
City of Medford	25,267
Chaney Family Foundation	10,000
United Way	10,000
Anna May Family Foundation	7,500
The Carpenter Foundation	<u>5,000</u>
Total	<u>\$ 365,267</u>

**HEARTS WITH A MISSION**  
**Notes to Financial Statements (continued)**  
*For the Year Ended June 30, 2016*

**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 \$24,193 during the fiscal year ended June 30, 2016

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

The Organization entered into a marketing agreement with First Community Credit Union on March 7, 2016. This agreement provides the Organization with marketing revenue of \$40,000 per year. This agreement was made in conjunction with the purchase of the Grants Pass, Oregon property. These payments 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 Program (SHAP). The current agreement is from July 1, 2015 through June 15, 2016. The Organization received a total of \$125,000 of SHAP funding during the year ending June 30, 2016. The remaining reported under government contracts is from the City of Medford, 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 2, 2016, which is the date of the Audit Report. The report was available to be issued on September 18, 2016.

