

**HOPE HARBOR, INC.**  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2017

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**INDEPENDENT AUDITOR'S REPORT**

To Board of Directors  
Hope Harbor, Inc.

We have audited the accompanying financial statements of Hope Harbor, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities 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***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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, we 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.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

***OPINION***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Harbor, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

***REPORT ON SUPPLEMENTARY INFORMATION***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 6 and schedule of thrift store operations on page 12 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,

A handwritten signature in black ink that reads "David Clanin, CPA". The signature is written in a cursive style with a large, stylized initial "D".

**DAVID CLANIN CPA**

June 26, 2018

HOPE HARBOR, INC.  
**STATEMENT OF FINANCIAL POSITION**  
DECEMBER 31, 2017

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<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 317,066
Cash - Restricted	374,649
Investments	907,010
Inventory	<u>25,000</u>
<b>Total Current Assets</b>	<u>1,623,725</u>
Interest in assets of Hope Harbor Foundation, Inc.	35,906
<b>Property and Equipment</b>	
Land	141,250
Building and improvements	1,985,603
Furniture and office equipment	379,250
Vehicles	<u>99,558</u>
<b>Total Property and Equipment</b>	<u>2,605,661</u>
Less: Accumulated depreciation	<u>(1,214,895)</u>
<b>Net Property and Equipment</b>	<u>1,390,766</u>
<b>Total Assets</b>	<u><u>\$ 3,050,397</u></u>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued expenses	\$ 9,436
Current portion of annuity payable	4,827
Current portion of note payable	<u>8,547</u>
<b>Total Current Liabilities</b>	<u>22,810</u>
<b>Non Current Liabilities</b>	
Note Payable	92,344
Annuity payable, less current portion	<u>111,103</u>
<b>Total Liabilities</b>	<u>226,257</u>
<b>Net Assets</b>	
Net Assets - Unrestricted	2,272,501
Net Assets - Temporarily Restricted	461,639
Net Assets - Permanently Restricted	<u>90,000</u>
<b>Total Net Assets</b>	<u>2,824,140</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,050,397</u></u>

The accompanying notes are an integral part of these financial statements.

HOPE HARBOR, INC.  
**STATEMENT OF ACTIVITIES**  
DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support</b>				
Contributions	\$ 824,953	\$ 373,653	\$ -	\$ 1,198,606
Grants	-	6,750	-	6,750
Tuition and fees	38,167	-	-	38,167
Thrift store revenue, net of direct operating expenses of \$415,998	26,026	-	-	26,026
Investment income	15,911	1,909	-	17,820
Realized and unrealized loss on investments	73,770	7,049	-	80,819
Loss on disposal of asset	(6,600)	-	-	(6,600)
Other	13,652	-	-	13,652
<b>Total revenues, gains and other support</b>	<u>985,879</u>	<u>389,361</u>	<u>-</u>	<u>1,375,240</u>
Net Assets Released from Restrictions	<u>12,676</u>	<u>(12,676)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue</b>	<u>998,555</u>	<u>376,685</u>	<u>-</u>	<u>1,375,240</u>
<b>Expenses</b>				
Residential group care	482,978	-	-	482,978
School	223,653	-	-	223,653
Counseling	158,350	-	-	158,350
Fundraising	146,363	-	-	146,363
Management and general	204,170	-	-	204,170
<b>Total Expenses</b>	<u>1,215,514</u>	<u>-</u>	<u>-</u>	<u>1,215,514</u>
<b>Change in net assets</b>	(216,959)	376,685	-	159,726
<b>Net Assets, beginning of year, as restated</b>	<u>2,489,460</u>	<u>84,954</u>	<u>90,000</u>	<u>2,664,414</u>
<b>Net Assets, end of year</b>	<u>\$ 2,272,501</u>	<u>\$ 461,639</u>	<u>\$ 90,000</u>	<u>\$ 2,824,140</u>

The accompanying notes are an integral part of these financial statements.

HOPE HARBOR, INC.  
**STATEMENT OF FUNCTIONAL EXPENSES**  
 DECEMBER 31, 2017

	Program Services				Management and General	Total
	Residential Group Care	School	Counseling	Fundraising		
<b>Salaries and Related Expenses</b>						
Salaries and wages	\$ 215,707	\$ 130,646	\$ 99,433	\$ 81,363	\$ 108,043	\$ 635,192
Payroll taxes	13,117	8,179	6,213	319	5,074	32,903
Employee benefits	58,621	24,012	17,053	12,011	13,267	124,964
Total salaries and related expenses	287,446	162,837	122,698	93,693	126,384	793,059
<b>Expenses</b>						
Supplies	42,019	5,252	2,101	1,050	2,101	52,524
Training and education	1,236	4,234	4,793	3,136	4,178	17,577
Travel and per diem	21,517	-	428	8,054	6,674	36,673
Utilities	25,772	15,993	2,747	1,212	3,150	48,874
Miscellaneous	5,760	1,686	-	441	8,863	16,750
Maintenance and repairs	35,820	4,850	-	-	6,101	46,771
Professional services	3,012	4,073	6,217	11,409	5,185	29,897
Development	-	-	-	5,938	-	5,938
Insurance	20,312	870	-	-	16,771	37,953
Administration	12,312	11,430	11,430	11,430	13,997	60,599
Annuity costs	-	-	-	2,004	-	2,004
Total expenses before depreciation	455,207	211,225	150,415	138,368	193,405	1,148,619
Depreciation	27,771	12,428	7,935	7,996	10,766	66,895
Total expenses	\$ 482,978	\$ 223,653	\$ 158,350	\$ 146,363	\$ 204,170	\$ 1,215,514

The accompanying notes are an integral part of these financial statements.

HOPE HARBOR, INC.  
STATEMENT OF CASH FLOWS  
DECEMBER 31, 2017

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<b>Cash flows from operating activities</b>	
Increase in net assets	\$ 159,726
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	83,078
Realized and unrealized (gain) loss on investments	(80,819)
Loss on disposal of asset	6,600
Non-cash contributions	(14,900)
Change in operating assets/liabilities	
Decrease in accounts payable and accrued expenses	(10,480)
Increase in annuity payable	60,917
Net cash provided by (used in) operating activities	<u>204,122</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(62,395)
Proceeds from sale of investments	32,600
Purchase of investments	(100,000)
Net cash provided by (used in) investing activities	<u>(129,795)</u>
<b>Cash flow from financing activities</b>	
Principal payments on long-term debt	(8,212)
Net cash provided by (used in) financing activities	<u>(8,212)</u>
<b>Change in cash</b>	66,115
<b>Cash and cash equivalents, beginning of year</b>	<u>625,600</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 691,715</u>

The accompanying notes are an integral part of these financial statements.



**Note 1 - Nature of Organization**

Hope Harbor, Inc. (the Home) is an Oklahoma nonprofit corporation whose purpose is to provide a full range of social and educational services to youth and their families experiencing social and emotional conflicts. The Home provides residential and classroom facilities at its campus near Claremore, Oklahoma. Directors are appointed by Elders of the Blue Starr Church of Christ in Claremore, Oklahoma. During September 2010, the Home established Thrift Harbor, LLC, a wholly owned and controlled subsidiary for the purpose of operating thrift stores to provide financial support for the Home's general operations.

**Note 2 - Summary of Significant Accounting Policies**

Basis of Accounting – The financial statements are prepared using the accrual basis of accounting. Accordingly, revenue is recorded when earned and expenses are recorded when incurred. The financial statements are presented in accordance with authoritative accounting standards for not for profit organizations. As such, the standards require contributions to be recognized as revenue when they are received or unconditionally pledged and net assets to be classified as unrestricted, temporarily restricted, or permanently restricted, depending on the limitations placed on the contributions when received. All significant intercompany transactions have been eliminated in the financial statements.

Investments – Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value with gains and losses included in the statement of activities.

Inventory - Inventory of donated thrift store merchandise is stated at estimated liquidation value.

Property and equipment – Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings and improvements	7-40 years
Furniture, office and other equipment	3-7 years
Vehicles	3-5 years

Income Taxes – The Home is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation under Section 509(a) of the Internal Revenue Code. As a result, as long as the Home maintains its tax exemption, it will not be subject to income tax.

The accounting for income taxes may, at times, involve some degree of uncertainty and, as such, lead to uncertain tax positions having been taken. Management evaluated the Home's tax positions and concluded that the Home has taken no uncertain tax positions that require adjustments to the financial statements. Generally, the Home is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

Contributions – The Home reports gifts of cash and other assets as restricted support if they are received with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same accounting period during which they are received, are recorded as unrestricted support in that period.

**Note 2 - Summary of Significant Accounting Policies (continued)**

Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributions received by Hope Harbor Foundation, Inc. (Foundation), for which the Home is the beneficiary are reported as revenue by the Home.

Management estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures in the notes thereto. Actual results could differ from those estimates.

Functional expenses – The costs of providing the Home's services: residential group care, educational services and counseling, are reported separately in the statement of activities. Support services: fundraising, and management and general are also separately stated. Direct costs are charged to the program or supporting service to which they relate. Indirect costs are allocated on the basis of relative direct costs.

**Note 3 – Investments and Fair Value Measurements**

Fair value measurements

The Financial Accounting Standards Board defines fair value, establishes a consistent framework for measuring fair value and establishes a fair value hierarchy based on the observance of inputs used to measure fair value. These inputs are summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical securities.

Level 2 - other significant observable inputs (including quoted prices for similar securities).

Level 3 - significant unobservable inputs (including the Home's own assumptions in determining the value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. All of the Home's investments are categorized as Level 1 securities.

**Note 4 – Interest in Assets of Hope Harbor Foundation, Inc.**

In 2008, Hope Harbor Foundation, Inc. received a \$105,906 bequest for the benefit of the Home. The bequest is reported by the Home as an asset temporarily restricted for building project purposes. During 2012, \$70,000 was used for building renovations and improvements and therefore released from restriction.

**Note 5 – Endowment**

The Home has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the state of Oklahoma, as requiring the preservation of the fair value of an endowment gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Home classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Home to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017.

Endowment Fund investment activity for the year ended December 31, 2017 is summarized in the table below:

	Endowment Fund			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, January 1, 2017	\$ -	\$ 42,126	\$ 90,000	\$ 132,126
Contributions				
Investment return:				
Investment income	-	1,909	-	1,909
Net appreciation in fair value	-	7,049	-	7,049
Total investment return	-	8,958	-	8,958
Net assets, December 31, 2017	\$ -	\$ 51,084	\$ 90,000	\$ 141,084

See Note 3 for a summary of endowment fund investments.

**Note 6 – Temporarily Restricted Net Assets**

At December 31, 2017, temporarily restricted net assets consisted of the following:

Interest in assets of Hope Harbor Foundation, Inc. (building project)	\$ 35,906
Capital Campaign	368,811
Samaritan Fund	3,810
Accumulated unappropriated endowment earnings	51,084
Website	2,028
	<u>\$ 461,639</u>

**Note 7 – Employee Benefit Plan**

The Home has a 403(b) benefit plan that covers all employees. The Home provides a discretionary matching contribution subject to Internal Revenue Code limitations. Employer contributions for the year ended December 31, 2017 were \$23,024.

**Note 8 – Hope Harbor Foundation, Inc.**

The Foundation was formed in April 2007 for the purpose of holding and investing funds and making distributions to organizations that qualify as exempt under Section 501(c)(3) of the Internal Revenue Code for charitable, religious, educational, or scientific purposes. The Foundation's directors are appointed by and serve at the pleasure of the Elders of the Blue Starr Church of the Christ (the Church). Members of the Foundation board of directors shall not include those serving as a director of Hope Harbor, Inc. Because the Home does not control the Foundation by Board Membership or otherwise, the Foundation's financial statements are not consolidated with the Home's financial statements.

**Note 9 – Concentration of Credit Risk**

The Home maintains accounts at a bank, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, cash balances may exceed the FDIC insurance limit.

**Note 10 – Note Payable**

During 2012, the Home entered into an agreement to purchase a building in Claremore, OK for \$140,000 to be used for its thrift store – Thrift Harbor LLC. The note is secured by the building and is being carried by the previous owner of the building at an interest rate of 4% over a 15 year period. The note matures in 2027. Cash paid for interest on the note was \$4,215 in 2017.

HOPE HARBOR, INC.  
**NOTES TO FINANCIAL STATEMENT**  
 December 31, 2017

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**Note 10 – Note Payable, continued**

Maturities of long-term debt are as follows:

	Principal	Interest	Total
2018	\$ 8,547	\$ 3,880	\$ 12,427
2019	8,895	3,532	12,427
2020	9,257	3,169	12,426
2021	9,634	2,792	12,426
2022	10,027	2,400	12,427
Thereafter	54,531	5,532	60,063
Total	\$ 100,891	\$ 21,305	\$ 122,196

**Note 11 – Property and Equipment**

Changes in Property and Equipment for the year ended December 31, 2017 are summarized as follows:

	Balance 1/1/2017	Additions	Disposals	Balance 12/31/2017
Land	\$ 141,250	\$ -	\$ -	\$ 141,250
Buildings and improvements	1,971,395	14,208	-	1,985,603
Furniture and office equipment	349,164	30,086	-	379,250
Vehicles	91,544	18,101	(10,087)	99,558
Total Property and Equipment	2,553,353	62,395	(10,087)	2,605,661
Less Accumulated Depreciation	(1,133,717)	(83,078)	1,900	(1,214,895)
Net Property and Equipment	\$ 1,419,636	\$ (20,683)	\$ (8,187)	\$ 1,390,766

**Note 12 – Subsequent Events**

Management has evaluated subsequent events through the date of the auditor's report, the date in which the financial statements were available to be issued.

**Note 13 – Adjustment to Beginning Net Assets**

Beginning net assets was restated by \$20,796 to account for donated vehicles held for resale that were sold in 2017

**Note 14 – Thrift Store Operations**

Hope Harbor owns and operates three thrift stores located in: Claremore, OK, Bartlesville, OK and Rogers, AR. The locations sell donated clothing and other donated merchandise. The organization also sells bulk clothing by the pound. Page 12 presents a combined summary of the results of the three stores and bulk clothing operation for the year ended December 31, 2017.

SUPPLEMENTARY INFORMATION

HOPE HARBOR, INC.

**THRIFT STORES – STATEMENT OF REVENUES AND EXPENSES**

DECEMBER 31, 2017

<b>Operating Revenues</b>	
Merchandise sales	\$ 325,350
Bulk clothing sales	110,192
Other revenues	6,483
<b>Total Operating Revenues</b>	<u>442,025</u>
<b>Operating Expenses</b>	
Advertising	6,673
Automobile	26,716
Bank service charges	18
Maintenance and repairs	9,952
Credit card merchant fees	7,354
Meals and entertainment	3,520
Office and store supplies	8,342
Payroll processing fees	2,082
Phone and internet	3,701
Rent	62,815
Salaries and wages	212,114
Payroll taxes	17,992
Utilities	20,184
Depreciation	16,183
Miscellaneous	7,538
<b>Total Operating Expenses</b>	<u>405,184</u>
<b>Operating Income (Loss)</b>	<u>36,841</u>
<b>Non-Operating Revenues (Expenses)</b>	
Gain (loss) on disposal of equipment	(6,600)
Interest expense	(4,215)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(10,815)</u>
<b>Net Income (Loss)</b>	<u>\$ 26,026</u>