

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

FOR THE YEAR ENDED
DECEMBER 31, 2018

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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, 2018 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, 2018, 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 thrift store operations on page 14 is presented for purposes of additional analysis and is 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, flowing style.

DAVID CLANIN CPA

June 26, 2019

HOPE HARBOR, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

Assets	
Assets	
Cash and cash equivalents	\$ 191,865
Cash - Restricted	729,467
Investments	550,332
Inventory	<u>25,000</u>
Total Current Assets	<u>1,496,664</u>
Interest in assets of Hope Harbor Foundation, Inc.	35,906
Property and Equipment	
Land	171,250
Building and improvements	2,086,923
Furniture and office equipment	443,500
Vehicles	<u>96,670</u>
Total Property and Equipment	<u>2,798,343</u>
Less: Accumulated depreciation	<u>(1,297,360)</u>
Net Property and Equipment	<u>1,500,983</u>
Total Assets	<u>\$ 3,033,553</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable and accrued expenses	\$ 13,222
Current portion of annuity payable	6,527
Current portion of note payable	<u>14,320</u>
Total Current Liabilities	34,069
Non Current Liabilities	
Notes Payable	190,260
Annuity payable, less current portion	<u>102,876</u>
Total Liabilities	<u>327,205</u>
Net Assets	
Without donor restrictions	1,889,891
With donor restrictions	<u>816,457</u>
Total Net Assets	<u>2,706,348</u>
Total Liabilities and Net Assets	<u>\$ 3,033,553</u>

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

HOPE HARBOR, INC.
STATEMENT OF ACTIVITIES
DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	\$ 907,883	\$ 235,938	\$ 1,143,821
Grants	-	20,000	20,000
Tuition and fees	80,164	-	80,164
Thrift store revenue, net of direct expenses of \$471,516	20,744	-	20,744
Investment income	1,470	17,826	19,296
Realized and unrealized loss on investments	(29,016)	-	(29,016)
Gain (Loss) on disposal of asset	6,000	-	6,000
Other	16,436	-	16,436
Total revenues, gains and other support	<u>1,003,681</u>	<u>273,764</u>	<u>1,277,445</u>
Net Assets Released from Restrictions	<u>8,946</u>	<u>(8,946)</u>	<u>-</u>
Total Support and Revenue	<u>1,012,627</u>	<u>264,818</u>	<u>1,277,445</u>
Expenses			
Residential group care	556,246	-	556,246
School	254,290	-	254,290
Counseling	182,731	-	182,731
Fundraising	173,324	-	173,324
Management and general	228,858	-	228,858
Total Expenses	<u>1,395,448</u>	<u>-</u>	<u>1,395,448</u>
Change in net assets	(382,821)	264,818	(118,003)
Net Assets, beginning of year	<u>2,272,712</u>	<u>551,639</u>	<u>2,824,351</u>
Net Assets, end of year	<u>\$ 1,889,891</u>	<u>\$ 816,457</u>	<u>\$ 2,706,348</u>

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

HOPE HARBOR, INC.
STATEMENT OF FUNCTIONAL EXPENSES
 DECEMBER 31, 2018

	Program Services			Fundraising	Management and General	Total
	Residential Group Care	School	Counseling			
Salaries and Related Expenses						
Salaries and wages	\$ 242,803	\$ 147,057	\$ 111,923	\$ 91,583	\$ 121,615	\$ 714,982
Payroll taxes	15,332	9,560	7,262	373	5,931	38,459
Employee benefits	61,384	25,144	17,856	12,577	13,892	130,854
Total salaries and related expenses	319,520	181,761	137,041	104,534	141,439	884,295
Expenses						
Supplies and small equipment	80,812	10,102	4,041	2,020	4,041	101,015
Training and education	1,338	4,586	5,192	3,397	4,526	19,040
Travel and per diem	23,605	-	470	8,836	7,321	40,232
Utilities	28,416	17,634	3,029	1,336	3,473	53,888
Miscellaneous	2,356	689	-	180	3,625	6,851
Maintenance and repairs	28,410	3,847	-	-	4,839	37,096
Professional services	4,059	5,489	8,377	15,375	6,988	40,287
Development	-	-	-	10,130	-	10,130
Insurance	21,159	906	-	-	17,471	39,536
Administration	17,544	16,287	16,287	16,287	19,944	86,348
Annuity costs	-	-	-	2,873	-	2,873
Total expenses before interest and depreciation	527,221	241,300	174,437	164,967	213,666	1,321,591
Interest	-	-	-	-	3,940	3,940
Depreciation	29,025	12,989	8,294	8,357	11,252	69,917
Total expenses	\$ 556,246	\$ 254,290	\$ 182,731	\$ 173,324	\$ 228,858	\$ 1,395,448

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

HOPE HARBOR, INC.
STATEMENT OF CASH FLOWS
DECEMBER 31, 2018

Cash flows from operating activities

Increase (decrease) in net assets	\$ (118,003)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	82,681
Reinvested interest and dividends	(16,972)
Realized and unrealized (gain) loss on investments	29,016
Gain on disposal of asset	(6,700)
Non-cash contributions	(10,182)
Change in operating assets/liabilities	
Increase in accounts payable and accrued expenses	3,786
Net cash provided by (used in) operating activities	<u>(36,374)</u>

Cash flows from investing activities

Purchases of property and equipment	(195,570)
Proceeds from sale of investments	358,400
Proceeds from sale of assets	6,000
Proceeds from investments	-
Net cash provided by (used in) investing activities	<u>168,830</u>

Cash flow from financing activities

Proceeds from long-term debt	115,699
Principal payments on annuities	(6,527)
Principal payments on long-term debt	(12,011)
Principal payments on annuities	-
Net cash provided by (used in) financing activities	<u>97,161</u>
Change in cash	<u>229,617</u>
Cash and cash equivalents, beginning of year	<u>691,715</u>
Cash and cash equivalents, end of year	<u><u>\$ 921,332</u></u>

Presented on the Statement of Financial Position:

Cash and cash equivalents	191,865
Cash - restricted	729,467
	<u><u>\$ 921,332</u></u>

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

Note 1 - Nature of Organization

Hope Harbor, Inc. (the Organization) 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 Organization 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 Organization established Thrift Harbor, LLC, a wholly owned and controlled subsidiary for the purpose of operating thrift stores to provide financial support for the Organization's general operations.

Note 2 - Summary of Significant Accounting Policies

Basis of presentation – The financial statements are prepared have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require Hope Harbor, Inc. 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 Hope Harbor, Inc.'s management and the 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 Hope Harbor, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, where by 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 statements of activities.

Measure of operations – The statements 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 Hope Harbor, Inc.'s ongoing animal services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and cash equivalents – Hope Harbor, Inc.'s cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

Concentrations of credit risk – Financial instruments that potentially subject Hope Harbor, Inc. to concentrations of credit risk consist principally of cash and cash equivalents and investments. Hope Harbor, Inc. maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Hope Harbor, Inc.'s cash and cash equivalent accounts have been placed with high credit quality financial institutions. Hope Harbor, Inc. has not experienced, nor does it anticipate, any losses with respect to such accounts.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Property and equipment, net – Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to seven years. Hope Harbor, Inc.'s policy is to capitalize renewals and betterments acquired for greater than \$500 and expense normal repairs and maintenance as incurred. Hope Harbor, Inc.'s management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Investments – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Hope Harbor, Inc. groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2: Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3: Unobservable inputs that cannot be corroborated by observable market data.

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions – Contributions received are 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. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Functional expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among animal services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Use of estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income taxes – Hope Harbor, Inc. is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Hope Harbor, Inc. has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Hope Harbor, Inc. has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements .

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation .

New Accounting Pronouncement – On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Hope Harbor, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Note 3 – Availability and Liquidity

The following represents Hope Harbor, Inc.'s financial assets at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 921,332
Investments	550,332
Total Financial Assets	<u>1,496,664</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	816,457
Less net assets with purpose restrictions to be met in less than a year	<u>(765,373)</u>
	<u>51,084</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 1,445,580</u></u>

Note 4 – Investments

The following is a summary of investments at December 31, 2018:

	<u>2018</u>
Cash equivalents	<u>\$ 28,994</u>
Equity Funds	266,594
International Equity Funds	43,172
Bond funds	<u>211,572</u>
	<u><u>\$ 550,332</u></u>

Note 5 – Interest in Assets of Hope Harbor Foundation, Inc.

In 2008, Hope Harbor Foundation, Inc. received a \$105,906 bequest for the benefit of the Organization. The bequest is reported by the Organization 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 6 – Property and Equipment

Changes in Property and Equipment for the year ended December 31, 2018 are summarized as follows:

	Balance 1/1/2018	Additions	Disposals	Balance 12/31/2018
Land	\$ 141,250	\$ 30,000	\$ -	\$ 171,250
Buildings and improvements	1,985,603	101,320	-	2,086,923
Furniture and office equipment	379,250	64,250	-	443,500
Vehicles	99,558	-	(2,888)	96,670
Total Property and Equipment	2,605,661	195,570	(2,888)	2,798,343
Less Accumulated Depreciation	(1,214,895)	(82,681)	216	(1,297,360)
Net Property and Equipment	<u>\$ 1,390,766</u>	<u>\$ 112,889</u>	<u>\$ (2,672)</u>	<u>\$ 1,500,983</u>

Depreciation expense for the year ended December 31, 2018 was \$82,681. The organization allocated \$69,917 to Hope Harbor and \$12,764 to thrift store operations.

Note 7 – Net Assets

At December 31, 2018, net assets with donor restrictions consisted of the following:

Interest in assets of Hope Harbor	
Foundation, Inc. (building project)	\$ 35,906
Capital Campaign	723,749
Samaritan Fund	3,810
Accumulated unappropriated endowment earnings	51,084
Website	1,908
	<u>\$ 816,457</u>

Note 8 – Employee Benefit Plan

The Organization has a 403(b) benefit plan that covers all employees. The Organization provides a discretionary matching contribution subject to Internal Revenue Code limitations. Employer contributions for the year ended December 31, 2018 were \$25,227.

Note 9 – 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 Organization does not control the Foundation by Board Membership or otherwise, the Foundation's financial statements are not consolidated with the Organization's financial statements.

Note 10 – Notes Payable

During 2012, the Organization 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 \$3,880 in 2018.

Maturities of long-term debt are as follows:

	Principal	Interest	Total
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
2023	10,435	1,991	12,426
Thereafter	44,097	3,541	47,638
Total	\$ 92,345	\$ 17,425	\$ 109,770

During 2018, the Organization entered into an agreement to purchase a warehouse near Claremore, OK for \$115,000 to be used for storage of donated items for its thrift store. The note is secured by the building and bears an interest rate of 5% over a 15-year period. The note matures in 2033. Cash paid for interest on the note was \$3,940 in 2018.

	Principal	Interest	Total
2019	\$ 5,425	\$ 5,681	\$ 11,106
2020	5,713	5,394	11,107
2021	6,016	5,091	11,107
2022	6,335	4,772	11,107
2023	6,670	4,436	11,106
Thereafter	82,076	21,587	103,663
Total	\$ 112,235	\$ 46,961	\$ 159,196

Note 11 – Lease Commitments

The organization has a lease agreement for a thrift store in Rogers, Arkansas. The lease is for a period of five years commencing September 2016 through September 2021. Monthly rental amount is \$3,600. Rent expense for 2018 was \$44,880.

The organization has a lease agreement for a thrift store in Bartlesville, Oklahoma. The lease is for one year and the rent is \$1,150 per month and is cancelable with a 60-day notice. Rent expense for 2018 was \$13,800.

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.

SUPPLEMENTARY INFORMATION

HOPE HARBOR, INC.
THRIFT STORES – STATEMENT OF REVENUES AND EXPENSES
 DECEMBER 31, 2018

Operating Revenues	
Merchandise sales	\$ 370,849
Bulk clothing sales	121,765
Other revenues	2,826
Total Operating Revenues	<u>495,440</u>
Operating Expenses	
Advertising	5,634
Automobile	38,184
Bank service charges	48
Maintenance and repairs	22,290
Credit card merchant fees	8,329
Meals and entertainment	3,987
Office and store supplies	7,451
Payroll processing fees	2,358
Phone and internet	4,738
Rent	67,181
Salaries and wages	242,591
Payroll taxes	20,837
Utilities	23,438
Depreciation	15,652
Miscellaneous	8,798
Total Operating Expenses	<u>471,516</u>
Operating Income (Loss)	<u>23,924</u>
Non-Operating Revenues (Expenses)	
Gain (loss) on disposal of equipment	700
Interest expense	(3,880)
Total Non-Operating Revenues (Expenses)	<u>(3,180)</u>
Net Income (Loss)	<u>\$ 20,744</u>