

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

FOR THE YEAR ENDED
DECEMBER 31, 2015

HOPE HARBOR, INC.

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position.....	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses.....	6
Notes to Financial Statements	7-11

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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, 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

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, 2014, 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.

Sincerely,



DAVID CLANIN CPA PLLC

CERTIFIED PUBLIC ACCOUNTANT

March 5, 2016

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

Assets		<u>2015</u>
Current Assets		
Cash and cash equivalents	\$	306,492
Investments		224,027
Inventory		25,000
Other assets		<u>21,096</u>
Total Current Assets		<u>576,615</u>
Interest in assets of Hope Harbor Foundation, Inc.		35,906
Property and Equipment		
Land		222,500
Building and improvements		2,021,818
Furniture and office equipment		284,402
Vehicles		<u>108,044</u>
Total Property and Equipment		2,636,764
Less: Accumulated depreciation		<u>(1,116,541)</u>
Net Property and Equipment		<u>1,520,223</u>
Total Assets	\$	<u>2,132,744</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$	41,394
Current portion of annuity payable		3,045
Current portion of note payable		<u>7,891</u>
Total Current Liabilities		52,330
Non Current Liabilities		
Note Payable		109,103
Annuity payable, less current portion		<u>54,589</u>
Total Liabilities		<u>216,022</u>
Net Assets		
Net Assets - Unrestricted		1,746,399
Net Assets - Temporarily Restricted		80,323
Net Assets - Permanently Restricted		<u>90,000</u>
Total Net Assets		<u>1,916,722</u>
Total Liabilities and Net Assets	\$	<u>2,132,744</u>

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

HOPE HARBOR, INC.
STATEMENT OF ACTIVITIES
DECEMBER 31,

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	\$ 874,846	\$ 20,000	\$ -	\$ 894,846
Bequests	39,210	-	-	39,210
Tuition and fees	64,964	-	-	64,964
Thrift store revenue, net of direct operating expenses of \$257,609	110,975	-	-	110,975
Investment income	1,332	3,386	-	4,718
Realized and unrealized loss on investments	1,705	(4,710)	-	(3,005)
Other	20,267	-	-	20,267
Total revenues, gains and other support	<u>1,113,299</u>	<u>18,676</u>	<u>-</u>	<u>1,131,975</u>
Net Assets Released from Restrictions	<u>21,492</u>	<u>(21,492)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>1,134,791</u>	<u>(2,816)</u>	<u>-</u>	<u>1,131,975</u>
Expenses				
Residential group care	439,348	-	-	439,348
School	201,940	-	-	201,940
Counseling	143,070	-	-	143,070
Fundraising	149,422	-	-	149,422
Management and general	188,486	-	-	188,486
Total Expenses	<u>1,122,265</u>	<u>-</u>	<u>-</u>	<u>1,122,265</u>
Change in net assets	12,526	(2,816)	-	9,710
Net Assets, beginning of year	<u>1,733,873</u>	<u>83,139</u>	<u>90,000</u>	<u>1,907,012</u>
Net Assets, end of year	<u>\$ 1,746,399</u>	<u>\$ 80,323</u>	<u>\$ 90,000</u>	<u>\$ 1,916,722</u>

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

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

	2015					
	Program Services				Management and General	Total
	Residential Group Care	School	Counseling	Fundraising		
Salaries and Related Expenses						
Salaries and wages	\$ 177,397	\$ 107,443	\$ 81,773	\$ 66,913	\$ 88,854	\$ 522,381
Payroll taxes	13,307	8,298	6,303	324	5,148	33,379
Employee benefits	66,800	27,363	19,432	13,687	15,118	142,399
Total salaries and related expenses	257,504	143,103	107,508	80,924	109,120	698,159
Expenses						
Supplies	28,663	3,583	1,433	717	1,433	35,829
Training and education	1,180	4,043	4,577	2,995	3,990	16,785
Travel	21,292	-	424	7,970	6,604	36,289
Utilities	26,539	16,469	2,829	1,248	3,243	50,328
Miscellaneous	4,297	1,258	-	329	6,612	12,495
Maintenance and repairs	30,056	4,070	-	-	5,119	39,245
Professional services	3,530	4,774	7,286	13,371	6,077	35,038
Development	-	-	-	21,764	-	21,764
Insurance	26,592	1,138	-	-	21,957	49,687
Administration	11,937	11,082	11,082	11,082	13,571	58,754
Annuity costs	-	-	-	1,032	-	1,032
Total expenses before depreciation	411,591.32	189,519	135,139	141,430	177,726	1,055,405
Depreciation	27,756	12,421	7,931	7,991	10,760	66,860
Total expenses	\$ 439,348	\$ 201,940	\$ 143,070	\$ 149,422	\$ 188,486	\$ 1,122,265

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

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

Cash flows from operating activities	<u>2015</u>
Increase in net assets	\$ 9,710
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	84,497
Realized and unrealized (gain) loss on investments	3,005
Non-cash contributions	(51,073)
Change in operating assets/liabilities	
Increase in accounts payable and accrued expenses	11,052
Increase in annuity payable	<u>33,646</u>
Net cash provided by (used in) operating activities	<u>90,837</u>
 Cash flows from investing activities	
Purchases of property and equipment	(22,978)
Purchase of investments	(31,412)
Proceeds from investments	<u>2,400</u>
Net cash provided by (used in) investing activities	<u>(51,990)</u>
 Cash flow from financing activities	
Principal payments on long-term debt	<u>(7,891)</u>
Net cash provided by (used in) financing activities	<u>(7,891)</u>
 Change in cash	 30,956
 Cash and cash equivalents, beginning of year	 <u>275,536</u>
 Cash and cash equivalents, end of year	 <u>\$ 306,492</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 a thrift store 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 2013.

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

	<u>2015</u>
Cash equivalents	\$ 1,830
Equity mutual funds:	
Large blend	45,660
Large growth	15,028
Small blend	36,853
Debt mutual funds:	
Short-term bond funds	4,369
Intermediate term bond funds	<u>120,444</u>
	<u>\$ 224,184</u>

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.

HOPE HARBOR, INC.
NOTES TO FINANCIAL STATEMENT
 December 31, 2015

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, 2015.

Endowment Fund investment activity for the year ended December 31, 2015 is summarized in the table below:

	Endowment Fund			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, January 1, 2015	\$ -	\$ 36,396	\$ 90,000	\$ 126,396
Investment return:				
Investment income	-	1,374	-	1,374
Net appreciation in fair value	-	(1,354)	-	(1,354)
Total investment return	-	20	-	20
Net assets, December 31, 2015	\$ -	\$ 36,416	\$ 90,000	\$ 126,416

See Note 3 for a summary of endowment fund investments.

Note 6 – Temporarily Restricted Net Assets

At December 31, 2015, temporarily restricted net assets consisted of the following:

	<u>2015</u>
Interest in assets of Hope Harbor Foundation, Inc. (building project)	\$ 35,906
Samaritan Fund	4,384
Accumulated unappropriated endowment earnings	36,416
Website	<u>3,617</u>
	<u>\$ 80,323</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, 2015 were \$21,543.

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 \$4,845 in 2015.

HOPE HARBOR, INC.
NOTES TO FINANCIAL STATEMENT
 December 31, 2015

Note 10 – Note Payable, continued

Maturities of long-term debt are as follows:

	Principal	Interest	Total
2016	\$ 7,891	\$ 6,190	\$ 14,081
2017	8,212	5,865	14,077
2018	8,547	5,534	14,081
2019	8,895	5,186	14,081
2020	9,257	4,523	13,780
Thereafter	74,192	13,893	88,085
Total	\$ 116,994	\$ 41,191	\$ 158,185

Note 11 – Property and Equipment

Changes in Property and Equipment for the year ended December 31, 2015 are summarized as follows:

	Balance 1/1/2015	Additions	Disposals	Balance 12/31/2015
Land	\$ 222,500	\$ -	\$ -	\$ 222,500
Buildings and improvements	1,950,888	20,506	-	1,971,394
Furniture and office equipment	332,354	2,472	-	334,826
Vehicles	93,144	14,900	-	108,044
Total Property and Equipment	2,598,886	37,878	-	2,636,764
Less Accumulated Depreciation	(1,032,044)	(84,497)	-	(1,116,541)
Net Property and Equipment	\$ 1,566,842	\$ (46,619)	\$ -	\$ 1,520,223

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.