

**EVOLVE ADOPTION
AND FAMILY SERVICES**
AUDITED FINANCIAL STATEMENTS
June 30, 2016

Mark D. Harrington, CPA
Wayne A. Langer, CPA
Nichole Fairbanks, CPA
Jesse Fraley, CPA



Gregory W. Heck, CPA, CVA
Greg L. Emmerich, CPA
Michael Belknap, CPA
Bryan W. Swartz, CPA

563 PHALEN BOULEVARD • ST. PAUL, MN 55130
phone 651.481.1128 • fax 651.481.0982

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
EVOLVE Adoption and Family Services
Oak Park Heights, Minnesota

We have audited the accompanying financial statements of EVOLVE Adoption and Family Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses 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 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, 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 we have 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 EVOLVE Adoption and Family Services 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.

Harrington Langer & Associates

October 6, 2016

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 93,242
Investments	2,752
Accounts receivable	56,699
Prepaid expenses	17,451
	17,451

TOTAL CURRENT ASSETS	170,144
----------------------	---------

PROPERTY AND EQUIPMENT, net of accumulated
depreciation of \$646,761

693,566

TOTAL ASSETS	\$ 863,710
--------------	------------

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 36,512
Accrued expenses	44,912
Line of credit	187,000
	187,000

TOTAL CURRENT LIABILITIES	268,424
---------------------------	---------

NET ASSETS

Unrestricted	595,286
--------------	---------

TOTAL NET ASSETS	595,286
------------------	---------

TOTAL LIABILITIES AND NET ASSETS	\$ 863,710
----------------------------------	------------

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

SUPPORT AND REVENUE

Adoption, foster care and related services	\$ 999,246
Contributions	216,199
Special events, net of related expenses of \$21,135	35,950
Miscellaneous income	8,660
Investment loss, net	<u>(3,562)</u>

TOTAL SUPPORT AND REVENUE	<u>1,256,493</u>
---------------------------	------------------

EXPENSES

Program services	1,279,553
Management and general	113,927
Fundraising	<u>55,071</u>

TOTAL EXPENSES	<u>1,448,551</u>
----------------	------------------

CHANGE IN NET ASSETS	(192,058)
-----------------------------	------------------

NET ASSETS, BEGINNING	<u>787,344</u>
-----------------------	----------------

NET ASSETS, ENDING	<u><u>\$ 595,286</u></u>
---------------------------	---------------------------------

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (192,058)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	35,211
Realized and unrealized loss on investments	3,567
(Increase) decrease in:	
Accounts receivable	51,203
Prepaid expenses	281
Increase (decrease) in:	
Accounts payable	(8,526)
Accrued expenses	2,108
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(108,214)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,498)
Sale of investments	21,498
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	19,000
CASH FLOWS FROM FINANCING ACTIVITIES	
Net change in the line of credit	127,000
	<hr/>
NET CASH PROVIDED BY FINANCING ACTIVITIES	127,000
	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS	37,786
CASH AND CASH EQUIVALENTS, BEGINNING	55,456
	<hr/>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 93,242</u>

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 745,616	\$ 55,894	\$ 40,439	\$ 841,949
Payroll taxes	55,165	3,770	2,306	61,241
 Total personnel costs	 800,781	 59,664	 42,745	 903,190
Professional fees	44,014	12,286	1,703	58,003
Occupancy	57,070	4,787	1,891	63,748
Communication	17,259	3,295	517	21,071
Office expenses	42,136	17,784	2,372	62,292
Advertising and marketing	1,413	7,189	2,542	11,144
Insurance	10,468	740	475	11,683
Staff morale and training	2,111	57	265	2,433
Client fees and related	233,399	307	5	233,711
Travel	28,247	775	253	29,275
Banking	10,039	591	1,181	11,811
Interest	-	4,813	-	4,813
Miscellaneous	-	166	-	166
Depreciation	32,616	1,473	1,122	35,211
 Total Expenses	 <u>\$ 1,279,553</u>	 <u>\$ 113,927</u>	 <u>\$ 55,071</u>	 <u>\$ 1,448,551</u>

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

EVOLVE Adoption & Family Services (EVOLVE or the Organization), a Minnesota nonprofit incorporated July 1, 2014 from a merger between Hope Adoption and Family Services International, Inc. and Crossroads Adoption Services. EVOLVE seeks to work diligently to unite children without permanent families with families who will love, support, and value them as individuals. The Organization accomplishes this by providing ethical, high quality adoption and foster care programs, pregnancy services, child-focused recruitment, and family support. The Organization holds adoption and family support licenses in Minnesota and northwestern Wisconsin and internationally as a Hague-accredited agency.

Basis of Accounting:

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation:

The Organization reports net assets based on the existence or absence of donor-imposed restrictions. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when 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. Temporarily restricted net assets whose restrictions are met in the year received are recorded in the financial statements as unrestricted assets.

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 the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

Functional Expenses:

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expenses studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Income Taxes:

The Organization is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and similar Minnesota statutes. The Organization is not a private foundation and contributions to the Organization qualify as a charitable tax deduction by the contributor. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except for cash classified with investments.

Investments:

Investments are valued at fair value based on quoted market prices. Investment securities are subject to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements. Investments at June 30, 2016, consist of \$2,620 cash and \$132 of mutual funds.

Accounts Receivable:

No provision has been made for uncollectible accounts, as management considers all significant accounts to be currently collectible. Uncollectible accounts are expensed on an individual basis when they are deemed to no longer be collectible.

Property and Equipment:

All major expenditures for property and equipment in excess of \$1,000 are capitalized at cost. Equipment and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair market values at the date they are donated. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets ranging from three to forty years.

Advertising and Marketing:

Advertising and marketing costs are expensed as incurred. For the year ended June 30, 2016 the Organization incurred advertising expenses of \$11,144.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition:

Adoption, foster care and related services are recorded as revenue when performed.

Contributions, including unconditional promises to give, are recognized when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at fair value, estimated using the present value of their net realizable value, using interest rates applicable to the years in which the promises are to be received. There were no unconditional promises to give at June 30, 2016

Donations of property and equipment are recorded as revenue and capitalized at their estimated fair value. Such donations are reported as unrestricted revenue unless the donor restricts the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted revenue.

Government contracts are recorded as exchange contracts and revenue is recorded when earned. Revenue is earned when eligible expenditures or services have been provided, as defined in each grant or contract. Government contracts are subject to review by the granting authority. To the extent, if any, that such a review would result in disallowances under these contracts, the Organization will record such disallowances at the time the final assessment is made.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 6, 2016, the date the financial statements were available to be issued.

NOTE 2. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalents with local financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 for year ended June 30, 2016. At June 30, 2016 all cash balances at financial institutions were fully insured.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 3. PROPERTY AND EQUIPMENT

At June 30, 2016 property and equipment consisted of the following:

Land	\$ 47,148
Building and improvements	984,146
Equipment and furniture	309,033
	1,340,327
Less: accumulated depreciation	(646,761)
Total property and equipment, net	\$ 693,566

For the year ended June 30, 2016 depreciation expense was \$35,211.

NOTE 4. LINE OF CREDIT

The Organization has a \$245,000 line of credit with a bank expiring March 10, 2018. Advances on the line of credit are subject to interest at 5.00% at June 30, 2016. This line of credit is secured by the real estate of the Organization. \$187,000 was outstanding on this line of credit as of June 30, 2016.

NOTE 5. OPERATING LEASE COMMITMENTS

The Organization leases office equipment and leases office space under non-cancellable operating leases expiring a various dates. Future minimum lease payments on the above lease as of June 30, 2016 are as follows:

Year Ending June 30,	
2017	18,379
2018	12,237
2019	6,170
	\$ 36,786

For the year ended June 30, 2016 rent expense charged to operations for the above lease amounted to \$60,601.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 6. FAIR VALUE MEASUREMENT

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy are:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical securities. Level 1 inputs provide the most reliable measure of fair value as of the measurement date.
- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in inactive markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 inputs are significant unobservable inputs for the asset or liability.

Mutual funds are valued at the net asset value (NAV) of shares held by the Organization at year end which are quoted market prices and are classified as level 1 within the fair value hierarchy.