

**EVOLVE ADOPTION  
AND FAMILY SERVICES**  
AUDITED FINANCIAL STATEMENTS  
June 30, 2017

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## 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, 2017 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, 2017, 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*

December 12, 2017

**EVOLVE ADOPTION AND FAMILY SERVICES**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2017

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 95,105
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	229,007
Prepaid expenses	20,689

TOTAL CURRENT ASSETS	344,801
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PROPERTY AND EQUIPMENT, net of accumulated  
depreciation of \$682,437

660,992

TOTAL ASSETS	\$ 1,005,793
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 66,367
Accrued expenses	44,968
Line of credit	144,064

TOTAL CURRENT LIABILITIES	255,399
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**NET ASSETS**

Unrestricted	731,394
Temporarily restricted	19,000

TOTAL NET ASSETS	750,394
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TOTAL LIABILITIES AND NET ASSETS	\$ 1,005,793
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**EVOLVE ADOPTION AND FAMILY SERVICES**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Program services:			
Foster care and related	\$ 696,859	\$ -	\$ 696,859
Adoption and related	458,468	-	458,468
Family support and related	314,758	-	314,758
Total program services:	<u>1,470,085</u>	<u>-</u>	<u>1,470,085</u>
Contributions	141,102	19,000	160,102
Special events, net of related expenses of \$25,444	44,871	-	44,871
Miscellaneous income	<u>11,958</u>	<u>-</u>	<u>11,958</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,668,016</u>	<u>19,000</u>	<u>1,687,016</u>
<b>EXPENSES</b>			
Program services	1,283,908	-	1,283,908
Management and general	168,600	-	168,600
Fundraising	<u>79,400</u>	<u>-</u>	<u>79,400</u>
<b>TOTAL EXPENSES</b>	<u>1,531,908</u>	<u>-</u>	<u>1,531,908</u>
<b>CHANGE IN NET ASSETS</b>	136,108	19,000	155,108
NET ASSETS, BEGINNING	<u>595,286</u>	<u>-</u>	<u>595,286</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 731,394</u>	<u>\$ 19,000</u>	<u>\$ 750,394</u>

**EVOLVE ADOPTION AND FAMILY SERVICES**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2017

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 155,108
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	32,573
(Increase) decrease in:	
Accounts receivable	(172,308)
Prepaid expenses	(3,238)
Increase (decrease) in:	
Accounts payable	29,855
Accrued expenses	<u>57</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>42,047</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sales of investments	<u>2,752</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>2,752</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net change in the line of credit	<u>(42,936)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(42,936)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,863
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>93,242</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 95,105</u></u>

**EVOLVE ADOPTION AND FAMILY SERVICES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 679,374	\$ 68,442	\$ 64,290	\$ 812,106
Payroll taxes	48,217	5,089	4,274	57,580
 Total personnel costs	 727,591	 73,531	 68,564	 869,686
Professional fees	12,805	29,171	970	42,946
Occupancy	37,404	6,576	1,395	45,375
Communication	23,194	12,849	1,439	37,482
Office expenses	54,733	19,784	3,876	78,393
Advertising and marketing	672	3,307	389	4,368
Insurance	8,401	638	679	9,718
Staff morale and training	2,014	1,082	179	3,275
Client fees and related	344,851	900	-	345,751
Travel	24,279	6,405	3	30,687
Banking	2,975	4,976	660	8,611
Interest	-	7,866	-	7,866
Bad Debt Expense	15,000	-	-	15,000
Miscellaneous	-	177	-	177
Depreciation	29,989	1,338	1,246	32,573
 Total Expenses	 <u>\$ 1,283,908</u>	 <u>\$ 168,600</u>	 <u>\$ 79,400</u>	 <u>\$ 1,531,908</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.

**Accounts Receivable:**

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding fees and grants receivable. At June 30, 2017 an allowance of \$15,000 was established as an initial estimate of uncollectible accounts.

**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. For the year ended June 30, 2017 depreciation expense was \$32,573.

**Advertising and Marketing:**

Advertising and marketing costs are expensed as incurred. For the year ended June 30, 2017 the Organization incurred advertising expenses of \$4,368.

**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, 2017.

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 December 12, 2017, the date the financial statements were available to be issued.

**NOTE 2. 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, 2017. This line of credit is secured by the real estate of the Organization. \$144,064 was outstanding on this line of credit as of June 30, 2017.

**EVOLVE ADOPTION AND FAMILY SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. PROPERTY AND EQUIPMENT**

At June 30, 2017 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		(679,335)
		\$ 660,992

**NOTE 4. CONCENTRATIONS**

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, 2017. At June 30, 2017 all cash balances at financial institutions were fully insured.

The Organization received 46% of its total revenue from Dakota County, Ramsey County and Hennepin County.

**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, 2017 are as follows:

Year Ending June 30,	
2018	\$ 43,621
2019	20,643
2020	15,292
2021	15,292
Thereafter	1,275
	\$ 96,123

For the year ended June 30, 2017 rent expense charged to operations for the above lease amounted to \$52,009.