

**EVOLVE ADOPTION
AND FAMILY SERVICES
AUDITED FINANCIAL STATEMENTS
June 30, 2018**

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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, 2018 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, 2018, 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 29, 2018

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 81,771
Accounts receivable, net of allowance for uncollectible accounts of \$5,000	224,533
Pledges receivable	2,500
Prepaid expenses	<u>22,246</u>

TOTAL CURRENT ASSETS	<u>331,050</u>
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PLEDGES RECEIVABLE, NONCURRENT	<u>4,200</u>
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PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$711,917	<u>645,706</u>
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TOTAL ASSETS	<u><u>\$ 980,956</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 107,467
Accrued expenses	38,995
Line of credit	<u>50,150</u>

TOTAL CURRENT LIABILITIES	<u>196,612</u>
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NET ASSETS

Unrestricted	733,098
Temporarily restricted	<u>51,246</u>

TOTAL NET ASSETS	<u>784,344</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 980,956</u></u>
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EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Program services:			
Foster care and related	\$ 1,348,308	\$ -	\$ 1,348,308
Adoption and related	486,697	-	486,697
Family support and related	249,533	-	249,533
Total program services:	2,084,538	-	2,084,538
Contributions	302,582	32,246	334,828
Special events, net of related expenses of \$39,685	52,358	-	52,358
Miscellaneous income	5,008	-	5,008
TOTAL SUPPORT AND REVENUE	<u>2,444,486</u>	<u>32,246</u>	<u>2,476,732</u>
EXPENSES			
Program services	1,939,998	-	1,939,998
Management and general	321,718	-	321,718
Fundraising	181,066	-	181,066
TOTAL EXPENSES	<u>2,442,782</u>	<u>-</u>	<u>2,442,782</u>
CHANGE IN NET ASSETS	1,704	32,246	33,950
NET ASSETS, BEGINNING	<u>731,394</u>	<u>19,000</u>	<u>750,394</u>
NET ASSETS, ENDING	<u>\$ 733,098</u>	<u>\$ 51,246</u>	<u>\$ 784,344</u>

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 33,950
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	32,582
Change in allowance for uncollectible accounts	(10,000)
(Increase) decrease in:	
Accounts receivable	14,474
Pledges receivable	(6,700)
Prepaid expenses	(1,557)
Increase (decrease) in:	
Accounts payable	41,100
Accrued expenses	<u>(5,973)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>97,876</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(17,296)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(17,296)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Net change in the line of credit	<u>(93,914)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(93,914)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(13,334)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>95,105</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 81,771</u></u>

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	Program Expenses					Total Program Services	Management and General	Fundraising	Total
	Adoption Services	Family & Youth Services	Foster Care	Pregnancy Services	Education & Events				
Salaries	\$ 371,280	\$ 172,337	\$ 253,350	\$ 26,889	\$ 22,661	\$ 846,517	\$ 174,293	\$ 84,106	\$ 1,104,916
Benefits	22,698	8,411	14,332	1,931	1,886	49,258	4,737	1,995	55,990
Payroll taxes	28,012	11,691	14,502	2,233	1,684	58,122	16,053	7,674	81,849
Total personnel costs	421,990	192,439	282,184	31,053	26,231	953,897	195,083	93,775	1,242,755
Professional fees	2,637	846	3,025	99	179	6,786	21,115	68,267	96,168
Occupancy	16,157	13,131	8,824	770	603	39,485	9,144	1,529	50,158
Communication	4,761	2,881	3,555	883	326	12,406	18,449	2,051	32,906
Office expenses	28,045	6,424	19,518	1,435	921	56,343	21,606	5,495	83,444
Advertising and marketing	1,471	188	635	6,619	25	8,938	3,908	1,028	13,874
Insurance	4,387	1,564	2,493	533	242	9,219	3,416	729	13,364
Staff morale and training	3,472	558	7,090	-	278	11,398	27,347	2,612	41,357
Client fees and related	54,313	4,378	689,853	-	19,079	767,623	-	-	767,623
Travel	16,291	12,750	15,018	1,154	42	45,255	1,561	1,096	47,912
Banking	1,988	-	-	-	268	2,256	655	1,552	4,463
Interest	-	-	-	-	-	-	9,716	-	9,716
Bad Debt Expense	-	-	-	-	-	-	6,460	-	6,460
Depreciation	14,010	1,955	7,820	1,629	978	26,392	3,258	2,932	32,582
Total Expenses	\$ 569,522	\$ 237,114	\$1,040,015	\$ 44,175	\$ 49,172	\$ 1,939,998	\$ 321,718	\$ 181,066	\$ 2,442,782

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, 2018 an allowance of \$5,000 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, 2018 depreciation expense was \$32,582.

Advertising and Marketing:

Advertising and marketing costs are expensed as incurred. For the year ended June 30, 2018 the Organization incurred advertising expenses of \$13,874.

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, 2018.

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 29, 2018, the date the financial statements were available to be issued.

NOTE 2. LINE OF CREDIT

The Organization has a \$300,000 line of credit with a bank expiring March 22, 2019. Advances on the line of credit are subject to interest at 6.75% at June 30, 2018. This line of credit is secured by the real estate of the Organization. \$50,150 was outstanding on this line of credit as of June 30, 2018.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 3. PROPERTY AND EQUIPMENT

At June 30, 2018 property and equipment consisted of the following:

Land	\$	47,148
Building and improvements		984,146
Equipment and furniture		326,329
		1,357,623
Less: accumulated depreciation		(711,917)
Total property and equipment, net	\$	645,706

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, 2018. At June 30, 2018 all cash balances at financial institutions were fully insured.

The Organization received 56% 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, 2018 are as follows:

Year Ending June 30,	
2019	\$ 28,659
2020	15,292
	\$ 43,951

For the year ended June 30, 2018 rent expense charged to operations amounted to \$58,021.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018 temporarily restricted net assets consisted of the following:

Capacity campaign	\$	47,046
Pledges receivable, noncurrent		4,200
		\$ 51,246