

**EVOLVE ADOPTION
AND FAMILY SERVICES**
AUDITED FINANCIAL STATEMENTS
June 30, 2019

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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, 2019 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, 2019, 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 31, 2019

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 354,553
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	302,826
Pledges receivable, net	120,621
Prepaid expenses	<u>31,097</u>

TOTAL CURRENT ASSETS	<u>809,097</u>
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PLEDGES RECEIVABLE, NONCURRENT, NET	<u>103,934</u>
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PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$746,556	<u>616,584</u>
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TOTAL ASSETS	<u><u>\$ 1,529,615</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 112,284
Accrued expenses	133,233
Line of credit	<u>350,150</u>

TOTAL CURRENT LIABILITIES	<u>595,667</u>
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NET ASSETS

Without donor restrictions	553,930
With donor restrictions	<u>380,018</u>

TOTAL NET ASSETS	<u>933,948</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,529,615</u></u>
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EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Program services:			
Foster care and related	\$ 1,336,168	\$ -	\$ 1,336,168
Adoption and related	542,295	-	542,295
Family support and related	510,644	-	510,644
Total program services:	<u>2,389,107</u>	<u>-</u>	<u>2,389,107</u>
Contributions	269,823	674,418	944,241
Special events, net of related expenses of \$30,689	68,283	-	68,283
Miscellaneous income	268	-	268
Net assets released from restrictions	<u>345,646</u>	<u>(345,646)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>3,073,127</u>	 <u>328,772</u>	 <u>3,401,899</u>
 EXPENSES			
Program services	2,616,871	-	2,616,871
Management and general	437,530	-	437,530
Fundraising	<u>197,894</u>	<u>-</u>	<u>197,894</u>
 TOTAL EXPENSES	 <u>3,252,295</u>	 <u>-</u>	 <u>3,252,295</u>
 CHANGE IN NET ASSETS	 (179,168)	 328,772	 149,604
 NET ASSETS, BEGINNING	 <u>733,098</u>	 <u>51,246</u>	 <u>784,344</u>
 NET ASSETS, ENDING	 <u>\$ 553,930</u>	 <u>\$ 380,018</u>	 <u>\$ 933,948</u>

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 149,604
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	34,639
(Increase) decrease in:	
Accounts receivable	(78,293)
Pledges receivable	(217,855)
Prepaid expenses	(8,851)
Increase (decrease) in:	
Accounts payable	4,817
Accrued expenses	94,238

NET CASH USED IN OPERATING ACTIVITIES (21,701)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(5,517)</u>
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NET CASH USED IN INVESTING ACTIVITIES (5,517)

CASH FLOWS FROM FINANCING ACTIVITIES

Net change in the line of credit	<u>300,000</u>
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NET CASH PROVIDED BY FINANCING ACTIVITIES 300,000

INCREASE IN CASH AND CASH EQUIVALENTS 272,782

CASH AND CASH EQUIVALENTS, BEGINNING 81,771

CASH AND CASH EQUIVALENTS, ENDING \$ 354,553

SUPPLEMENTAL CASH FLOWS DISCLOSURES

Interest paid	\$ 17,999
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EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Expenses						Total		
	Adoption Services	Pregnancy Services	Family & Youth Services	Foster Care	Education & Events	Program Services		Management and General	Fundraising
Salaries	\$ 442,231	\$ 29,597	\$ 197,520	\$ 399,063	\$ 108,691	\$ 1,177,102	\$ 288,646	\$ 82,236	\$ 1,547,984
Payroll taxes	19,986	1,192	8,772	15,159	4,519	49,628	14,991	3,719	68,338
Benefits	50,870	3,169	18,226	44,661	10,138	127,064	20,625	8,490	156,179
Total personnel costs	513,087	33,958	224,518	458,883	123,348	1,353,794	324,262	94,445	1,772,501
Professional fees	15,457	936	9,774	16,057	2,816	45,040	15,478	85,127	145,645
Special events	-	-	-	-	-	-	52	30,786	30,838
Occupancy	16,653	527	13,891	27,775	7,025	65,871	6,675	2,175	74,721
Communication	5,786	589	6,726	14,581	2,957	30,639	8,510	1,766	40,915
Office expenses	31,380	1,106	12,942	32,500	13,128	91,056	16,004	5,490	112,550
Advertising and marketing	6,243	3,409	143	1,392	17,182	28,369	4,807	2,789	35,965
Insurance	3,195	282	1,315	2,161	304	7,257	1,659	752	9,668
Staff morale and training	2,037	310	739	874	838	4,798	20,911	276	25,985
Client fees and related	59,750	123	337	698,366	155,442	914,018	7	-	914,025
Travel	16,853	2,120	7,556	15,906	4,314	46,749	1,361	345	48,455
Banking	1,494	-	-	-	413	1,907	1,019	2,199	5,125
Interest	-	-	-	-	-	-	17,999	-	17,999
Bad debt expense	-	-	-	-	-	-	13,953	-	13,953
Depreciation	12,830	1,047	3,447	9,352	697	27,373	4,833	2,433	34,639
Total expenses by function	684,765	44,407	281,388	1,277,847	328,464	2,616,871	437,530	228,583	3,282,984
Less expenses included with revenues on the statement of activities	-	-	-	-	-	-	-	(30,689)	(30,689)
Total expenses included in the statements of activities	\$ 684,765	\$ 44,407	\$ 281,388	\$ 1,277,847	\$ 328,464	\$ 2,616,871	\$ 437,530	\$ 197,894	\$ 3,252,295

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 Presentation:

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which required the Organization 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 the Organization'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 the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby 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 statement of activities.

Cash and Cash Equivalents:

Cash and cash equivalents are defined as depository accounts, savings accounts, and other highly liquid investments with an original maturity of ninety days or less, except for cash classified with investments.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

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

Accounts Receivable and Pledges Receivable:

Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. There was a \$15,000 valuation allowance for accounts receivable as of June 30, 2019.

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, 2019 depreciation expense was \$34,639.

Revenue Recognition:

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

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.

Government grants and contracts are recorded as revenue when earned as an exchange transaction. For certain grants, revenue is earned when eligible expenditures, as defined in each grant, are made. Expenditures under these government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowances at the time the final assessment is made.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

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

Advertising and Marketing:

Advertising and marketing costs are expensed as incurred. For the year ended June 30, 2019 the Organization incurred advertising expenses of \$35,965.

Income Taxes:

The Organization operates as a charitable organization. The Organization has been ruled 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 donor.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for uncertain positions that more likely than not would not be sustained upon examination by the applicable tax authorities. Federal and state tax authorities generally have the right to examine the current the previous three years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

Functional Expenses:

The costs of programs and supporting services have been summarized on a functional basis. Salaries and related expenses are allocated to program and supporting services based on time spent on each program. The program costs are specifically allocated whenever practical. General overhead expenses are allocated on the best estimates of management.

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.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 31, 2019, the date the financial statements were available to be issued.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

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

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on previously reported net assets.

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. The Organization has adjusted the presentation of these statements accordingly.

NOTE 2. LINE OF CREDIT

The Organization has a \$450,000 line of credit with a bank expiring May 22, 2020. Advances on the line of credit are subject to interest at 7.5% at June 30, 2019. This line of credit is secured by the real estate of the Organization. \$350,150 was outstanding on this line of credit as of June 30, 2019.

NOTE 3. PROPERTY AND EQUIPMENT

At June 30, 2019 property and equipment consisted of the following:

Land	\$ 47,148
Building and improvements	984,146
Equipment and furniture	<u>331,846</u>
	1,363,140
Less: accumulated depreciation	<u>(746,556)</u>
Total property and equipment, net	<u><u>\$ 616,584</u></u>

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

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 and the Securities Investor Protection Corporation up to \$500,000 for year ended June 30, 2019. At June 30, 2019 all cash balances at financial institutions were fully insured.

The Organization received 48% of its total revenue from the State of Minnesota, Department of Human Services, Ramsey County and Hennepin County.

NOTE 5. OPERATING LEASE COMMITMENTS

The Organization leases office equipment and office space under non-cancellable operating leases expiring over various dates. Rent expense for the year ended June 30, 2019 amounted to \$48,817. Future minimum lease payments on the above leases as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 63,330
2021	66,046
2022	50,963
2023	52,492
2024	8,878
	<u>\$ 241,709</u>

NOTE 6. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available for general expenditure within one year.

Financial assets at year-end:	
Cash and cash equivalents	\$ 354,553
Accounts receivable, net	302,826
Pledges receivable, net	<u>120,621</u>
Total financial assets	778,000
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(380,018)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 397,982</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019, net assets with donor restrictions and net assets released from restrictions by incurring expenses satisfying the restricted purpose are for the Organization's capital campaign/program expansion.