

**EVOLVE ADOPTION
AND FAMILY SERVICES**
AUDITED FINANCIAL STATEMENTS
June 30, 2020

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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, 2020 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, 2020, 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

March 18, 2021

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 335,737
Accounts receivable, net of allowance for uncollectible accounts of \$12,455	205,574
Pledges receivable, net	105,634
Prepaid expenses	<u>30,555</u>

TOTAL CURRENT ASSETS 677,500

PROPERTY AND EQUIPMENT, net of accumulated
depreciation of \$777,070 586,070

TOTAL ASSETS \$ 1,263,570

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 75,029
Accrued expenses	88,211
Post placement adopt deposit	1,000
Line of credit	348,599
PPP loan payable	<u>221,000</u>

TOTAL CURRENT LIABILITIES 733,839

NET ASSETS

Without donor restrictions	328,731
With donor restrictions	<u>201,000</u>

TOTAL NET ASSETS 529,731

TOTAL LIABILITIES AND NET ASSETS \$ 1,263,570

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Program services:			
Foster care and related	\$ 1,478,633	\$ -	\$ 1,478,633
Adoption and related	414,739	-	414,739
Family support and related	646,069	-	646,069
Total program services:	<u>2,539,441</u>	<u>-</u>	<u>2,539,441</u>
Contributions	80,127	165,024	245,151
Special events, net of related expenses of \$22,365	35,978	-	35,978
Miscellaneous income	5,665	-	5,665
Net assets released from restrictions	<u>344,042</u>	<u>(344,042)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>3,005,253</u>	 <u>(179,018)</u>	 <u>2,826,235</u>
 EXPENSES			
Program services	2,765,061	-	2,765,061
Management and general	288,767	-	288,767
Fundraising	<u>176,624</u>	<u>-</u>	<u>176,624</u>
 TOTAL EXPENSES	 <u>3,230,452</u>	 <u>-</u>	 <u>3,230,452</u>
 CHANGE IN NET ASSETS	 <u>(225,199)</u>	 <u>(179,018)</u>	 <u>(404,217)</u>
 NET ASSETS, BEGINNING	 <u>553,930</u>	 <u>380,018</u>	 <u>933,948</u>
 NET ASSETS, ENDING	 <u>\$ 328,731</u>	 <u>\$ 201,000</u>	 <u>\$ 529,731</u>

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (404,217)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	30,513
(Increase) decrease in:	
Accounts receivable	97,252
Pledges receivable	118,921
Prepaid expenses	542
Increase (decrease) in:	
Accounts payable	(37,255)
Accrued expenses	(45,022)
Post placement adopt deposit	<u>1,000</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(238,266)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from PPP loan	221,000
Net change in the line of credit	<u>(1,550)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>219,450</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(18,816)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>354,553</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 335,737</u></u>
SUPPLEMENTAL CASH FLOWS DISCLOSURES	
Interest paid	\$ 20,462

EVOLVE ADOPTION AND FAMILY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Expenses							Total	
	Family						Program Services		
	Adoption Services	Pregnancy Services	Family & Youth Services	Foster Care	Education & Events	Management and General			Fundraising
Salaries	\$ 444,578	\$ 22,659	\$ 152,144	\$ 442,030	\$ 164,407	\$ 1,225,818	\$ 171,997	\$ 116,423	\$ 1,514,238
Payroll taxes	18,693	1,288	4,105	17,244	4,290	45,620	22,452	5,153	73,225
Benefits	17,905	1,421	3,961	17,106	3,877	44,270	3,933	5,173	53,376
Total personnel costs	481,176	25,368	160,210	476,380	172,574	1,315,708	198,382	126,749	1,640,839
Professional fees	63,702	1,775	20,770	57,423	18,245	161,915	31,980	17,515	211,410
Special events	-	-	-	-	-	-	25	22,340	22,365
Occupancy	8,653	-	9,569	31,729	7,824	57,775	7,287	393	65,455
Communication	6,732	1,701	1,943	6,999	1,394	18,769	5,119	3,181	27,069
Office expenses	10,236	629	2,226	8,367	4,606	26,064	3,176	3,997	33,237
Advertising and marketing	5,956	304	1,792	5,558	6,112	19,722	1,635	2,576	23,933
Insurance	4,318	276	1,227	4,110	492	10,423	1,431	6,375	18,229
Staff morale and training	9,640	396	1,543	6,400	1,083	19,062	4,379	2,028	25,469
Client fees and related	38,712	123	2,232	789,544	170,835	1,001,446	-	175	1,001,621
Travel	9,936	915	6,423	10,032	4,818	32,124	253	32	32,409
Banking	1,042	-	-	-	131	1,173	3,976	2,430	7,579
Interest	-	-	-	-	-	-	20,462	-	20,462
Bad debt expense	-	-	-	-	-	-	370	-	370
Depreciation	10,554	669	3,051	10,210	1,253	25,737	2,685	2,091	30,513
Dues and subscriptions	6,346	42	156	3,555	123	10,222	887	1,586	12,695
Real estate tax	471	36	10	97	33	647	106	159	912
Equipment rental	9,160	431	2,124	8,107	1,981	21,803	2,587	2,580	26,970
Licenses and permits	4,119	25	1,332	137	992	6,605	1,153	89	7,847
Building maintenance	4,951	244	2,678	9,297	2,300	19,470	1,417	1,470	22,357
Utilities	5,255	331	1,903	7,148	1,689	16,326	1,268	1,634	19,228
Building security	50	6	1	10	3	70	65	659	794
Miscellaneous	-	-	-	-	-	-	149	905	1,054
Total expenses by function	681,009	33,271	219,190	1,435,103	396,488	2,765,061	288,792	198,964	3,252,817
Less expenses included with revenues on the statement of activities	-	-	-	-	-	-	(25)	(22,340)	(22,365)
Total expenses included in the statements of activities	\$ 681,009	\$ 33,271	\$ 219,190	\$ 1,435,103	\$ 396,488	\$ 2,765,061	\$ 288,767	\$ 176,624	\$ 3,230,452

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 \$12,455 valuation allowance for accounts receivable as of June 30, 2020.

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, 2020 depreciation expense was \$30,513.

Revenue Recognition:

Adoption, foster care and related services are recorded as revenue when performed. The Organization records special events revenue equal to the cost of the direct benefits to donors, and contribution revenue for the difference.

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.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

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, 2020 the Organization incurred advertising expenses of \$23,933.

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 and 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.

COVID 19:

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world during 2020 has caused significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.

EVOLVE ADOPTION AND FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS

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

Change in Accounting Principles:

FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 18, 2021, the date the financial statements were available to be issued.

NOTE 2. LINE OF CREDIT

The Organization has a \$450,000 line of credit with a bank expiring May 22, 2021. Advances on the line of credit are subject to interest at the US Bank prime rate with a floor of 4.0% (4.0% effective rate at June 30, 2020). This line of credit is secured by the real estate of the Organization. \$348,599 was outstanding on this line of credit as of June 30, 2020.

NOTE 3. PROPERTY AND EQUIPMENT

At June 30, 2020 property and equipment consisted of the following:

Land	\$ 47,148
Building and improvements	895,933
Equipment and furniture	<u>420,059</u>
	1,363,140
Less: accumulated depreciation	<u>(777,070)</u>
Total property and equipment, net	<u>\$ 586,070</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, 2020. On June 30, 2020 all cash balances at financial institutions were fully insured.

The Organization received 45% of its total revenue from 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 through February 2024. Rent expense for the year ended June 30, 2020 amounted to \$65,455. Future minimum lease payments on the above leases as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 64,645
2022	66,126
2023	67,651
2024	<u>41,265</u>
	<u>\$ 239,687</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	\$ 335,737
Accounts receivable, net	205,574
Pledges receivable, net	<u>105,634</u>
Total financial assets	646,945
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(201,000)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 445,945</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

As of June 30, 2020, net assets with donor restrictions amounted to \$201,000. These funds were restricted for the Organization's capital campaign/program expansion. During the year ended June 30, 2020, net assets released from restrictions by incurring expenses satisfying the restricted purpose were \$344,042.

NOTE 8. PPP FUNDING

On April 15, 2020, the Organization received loan proceeds in the amount of \$221,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act, provides loans to qualifying businesses. The loans and accrued interest are forgivable after twenty-four weeks if the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

Subsequent to year-end, the Organization used the proceeds for eligible purposes and was granted full forgiveness.