

Treasures for Hope, Inc.

Financial Statements
and Supplementary Information
For the Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Treasures for Hope, Inc.
Palm Beach Gardens, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Treasures for Hope, Inc. (the "Organization") (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows 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 from 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.

Treasures for Hope, Inc.

Basis for Qualified Opinion

As more fully described in Note 9 to the financial statements, the Organization's financial statements do not include the accounts of Place of Hope, Inc., Village of Hope of Palm Beach County, Inc., Thousand Hills Holding Company, Inc., and The Place of Hope at the Haven Campus, Inc. d/b/a The Place of Hope at the Leighan and David Rinker Campus, which are related parties to the Organization. The related parties and the Organization have been identified by management as meeting the requirements for the presentation of combined financial statements as required by accounting principles generally accepted in the United States of America; however, these financial statements are not presented on a combined basis. In our opinion, the Organization's financial statements should include the accounts of these related parties to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Organization as of December 31, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
May 24, 2018

Treasures for Hope, Inc.
Statement of Financial Position
December 31, 2017

Assets:

Cash	\$	39,976
Accounts receivable		775
Inventory		145,321
Property and equipment, net		<u>1,973,767</u>
Total assets	\$	<u><u>2,159,839</u></u>

Liabilities:

Accounts payable and accrued expenses	\$	32,086
Due to related party		610,570
Mortgage note payable, net of unamortized loan issuance costs		<u>712,323</u>
Total liabilities		<u>1,354,979</u>

Net Assets:

Unrestricted		<u>804,860</u>
Total net assets		<u>804,860</u>
Total liabilities and net assets	\$	<u><u>2,159,839</u></u>

The accompanying notes to financial statements are an integral part of these statements.

Treasures for Hope, Inc.
Statement of Activities
For the Year Ended December 31, 2017

Operating revenues:	
Donated goods and services	\$ 449,881
Sales	412,368
Rental income	188,443
Contributions and other income	<u>4,283</u>
Total operating revenues	<u>1,054,975</u>
Expenses:	
Operating expenses	611,443
Cost of goods sold	326,737
Interest expense, including amortization of loan issuance costs of \$ 5,078	40,812
Provision for depreciation	<u>32,275</u>
Total expenses	<u>1,011,267</u>
Change in net assets	43,708
Net Assets, beginning of year	<u>761,152</u>
Net Assets, end of year	\$ <u><u>804,860</u></u>

The accompanying notes to financial statements are an integral part of these statements.

Treasures for Hope, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows from Operating Activities:	
Change in net assets	\$ 43,708
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Provision for depreciation	32,275
Amortization of loan issuance costs	5,078
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(775)
Inventory	(45,047)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(7,742)
Due to related party	52,738
	<hr/>
Net cash provided by (used in) operating activities	80,235
	<hr/>
Cash Flows from Investing Activities:	
Purchases of property and equipment	(11,357)
	<hr/>
Net cash provided by (used in) investing activities	(11,357)
	<hr/>
Cash Flows from Financing Activities:	
Principal payments on debt	(90,350)
	<hr/>
Net cash provided by (used in) financing activities	(90,350)
	<hr/>
Net increase (decrease) in cash	(21,472)
	<hr/>
Cash, beginning of year	61,448
	<hr/>
Cash, end of year	\$ <u>39,976</u>

The accompanying notes to financial statements are an integral part of these statements.

Note 1 - Organization and Operations

Treasures for Hope, Inc. (the "Organization"), is a not-for-profit, tax-exempt organization incorporated in April 2012, under the laws of the State of Florida. The Organization operates a charity store in Palm Beach Gardens, Florida, which sells quality second-hand items. Sales, contributions (cash and in-kind) and rental income represent the Organization's primary sources of operating revenue. The Organization's mission is to turn quality second-hand items into first class hope for the children and young adults at Place of Hope, Inc. ("Place") and Village of Hope of Palm Beach County, Inc. ("Village"). The Organization opened its doors for business on February 14, 2013.

The Organization partners with its affiliate organizations Place, Village, Thousand Hills Holding Company, Inc. ("Thousand Hills"), and The Place of Hope at the Haven Campus, Inc. d/b/a The Place of Hope at the Leighan and David Rinker Campus ("Haven") (Notes 7 and 9). Place, a not-for-profit entity incorporated in 1998, provides family-style foster care, family outreach and intervention, transitional housing and support services, adoption and foster care recruitment and support, a maternity home, hope and healing opportunities for children and families who have been traumatized by abuse and neglect throughout Palm Beach County. Village, a not-for-profit entity incorporated in 2006, provides a residential campus which may serve up to eighteen (18) young adults on a daily basis who have "aged out" (eighteen years old) of the foster care system or who are otherwise found homeless. Thousand Hills, a not-for-profit entity incorporated in 2012, provides independent living residential support and essential life-skills development for minor girls in crisis. Haven, a not-for-profit entity incorporated in 2013, primarily provides family-style residential foster care for sibling groups and other special needs youth in foster care, residential programs for those who have "aged out", as well as other related services, in the South Palm Beach County area, similar to those services provided by Place and Village.

Note 2 - Summary of Significant Accounting Policies

Basis of presentation: Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958 *Not-for-Profit Entities*. Under FASB ASC No. 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Restricted and unrestricted revenue and support: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Noncash contributions are recorded at their estimated fair value (Note 3) on the date received.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a 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.

The Organization had no temporarily or permanently restricted net assets as of December 31, 2017.

Cash: The Organization occasionally maintains cash balances at a financial institution which may exceed federally insured amounts. Amounts are maintained with what management believes to be a quality financial institution.

Note 2 - Summary of Significant Accounting Policies (continued)

Promises to give: Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization had no unconditional or conditional promises to give as of December 31, 2017.

Loan issuance costs: Loan issuance costs associated with outstanding debt is presented in the statement of financial position as a direct reduction in the carrying value of the associated debt liability. Amortization of loan issuance costs is reported as a component of interest expense in the statement of activities. Loan costs are amortized using the straight-line method over a period of 10 years.

Property and equipment: Property and equipment are carried at cost if purchased or, if donated, at estimated fair value on the date of the donation, less accumulated depreciation. The Organization's policy is to provide for depreciation using the straight-line method over the estimated useful life of each type of asset which is as follows:

Building and improvements	7-27.5 years
Furniture, fixtures, and office equipment	3-7 years

Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset for 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 restricted support. Without donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service, reclassifying temporarily restricted net assets to unrestricted net assets at that time.

Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized.

Income taxes: The Organization qualifies as a non-profit corporation exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), with the exception of any unrelated business income. An estimated provision for applicable federal and state income taxes, as applicable, has been made to these financial statements.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of management's review: Management has evaluated subsequent events through May 24, 2018, which is the date the financial statements were available for issuance.

Note 3 - Inventory

Inventory, which consists of donated clothing, household goods, furniture, and various other items, are held for sale at the charity store. Since there is no cost to the Organization, donated inventory is recorded at a discounted estimated fair value, which management estimates to be approximately fifty-percent (50%) of the resale value. During the year ended December 31, 2017, the Organization recorded approximately \$ 356,000 in donated goods for resale (Note 4). The Organization's inventory at December 31, 2017 was approximately \$ 145,000.

Note 4 - Donated Goods and Services

The Organization receives donated goods and services, paying for most services requiring specific expertise. A number of volunteers have donated their time in certain of the Organization's program service areas. Because of the difficulty in determining the number of hours for such services, those items are not disclosed in the accompanying financial statements. However, when the value of donated services requires specific expertise, they are recorded in the financial statements as revenue and as an expense, or as property and equipment, depending on the nature of the services provided. For the year ended December 31, 2017, the Organization recorded as a revenue and as an expense \$ 93,720 in donated services, which related to supporting services received from Place (Note 7). In addition, the Organization received donated goods for resale as discussed in Note 3.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2017:

Building and improvements	\$ 688,958
Furniture, fixtures, and office equipment	<u>18,861</u>
	707,819
Less: accumulated depreciation	<u>160,597</u>
	547,222
Land	<u>1,426,545</u>
	<u>\$ 1,973,767</u>

Note 6 – Mortgage Note Payable

Mortgage note payable at December 31, 2017 is as follows:

Mortgage note payable to a bank, net of unamortized loan issuance costs of \$ 22,854, payable in monthly installments of \$ 9,674, including interest at a fixed rate of 4.50% through June 2022, at which time the then remaining principal balance (estimated at approximately \$ 345,000) and accrued interest will be due. The mortgage note is collateralized by real estate property and is guaranteed by Place (Note 7).

\$ 712,323

Note 6 – Mortgage Note Payable (continued)

Estimated future debt principal payments are approximately as follows:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 83,800
2019	87,700
2020	91,700
2021	96,100
2022	<u>375,900</u>
	<u>\$ 735,200</u>

In connection with the above mortgage note payable, the Organization's loan agreement contains certain restrictive financial covenants including a debt service coverage ratio of not less than 1.20 to 1.00 and a current ratio of not less than 1.50 to 1.00. At December 31, 2017, the Organization was not in compliance with the debt service coverage ratio. The debt service coverage ratio was 1.01, which is mostly due to the Organization contributing support to Village (Note 7). At December 31, 2017, the Organization was in compliance with the current ratio.

Note 7 - Related Party Transactions (Note 1)

The Organization is related to Place through common board members and management. The Organization also receives support in the form of donated services for its general operations from Place. During the year ended December 31, 2017, the Organization received approximately \$ 94,000 of in-kind services from Place. In addition, as of December 31, 2017, the Organization had an amount due to Place amounting to \$ 610,570 related to start-up costs and other current expense reimbursements. This amount bears no interest and there is no established repayment schedule. Place is also the unconditional guarantor of the Organization's mortgage note payable (Note 6).

The Organization is also related to Village, Thousand Hills, and Haven, all not-for-profit entities, through common board members and management. The Organization contributed \$ 156,000 for the general support of Village during the year ended December 31, 2017.

Note 8 - Retirement Plan

The Organization's SIMPLE IRA retirement plan is available to all employees who have worked for the Organization for at least one year and have earned or are expected to earn a specified minimum salary. For the year ended December 31, 2017, the Organization contributed approximately \$ 2,600 to the plan.

Note 9 - Combination of Related Party Entities (Note 1)

FASB Accounting Standards Codification (ASC) 958-810-25-3 for Not-for-Profit Organizations requires combination of related party financial statements if one of the related parties has (1) control through a majority voting interest, and (2) economic interest. The Organization, Place, Village, Thousand Hills and Haven are all not-for-profit entities which share common Board members and Officers. Furthermore, Place provides general support to these entities in the form of contributions and donated services. Management indicated that, although the criterion for combination was met for the current year, they had chosen not to combine the financial statements for presentation. The Organization determined that if combination had taken place, as required by accounting principles generally accepted in the United States of America, the current year activity would have been affected by the summarized financial information documented in the tables below.

Summarized financial information for Place, as of and for the year ended December 31, 2017, is as follows:

Total assets	\$ 20,081,414
Total liabilities	<u>661,513</u>
Total net assets	<u>\$ 19,419,901</u>
Total change in net assets	<u>\$ 4,674,222</u>

Summarized financial information for Village, as of and for the year ended December 31, 2017, is as follows:

Total assets	\$ 2,896,704
Total liabilities	<u>32,870</u>
Total net assets	<u>\$ 2,863,834</u>
Total change in net assets	<u>\$ (86,719)</u>

Summarized financial information for Thousand Hills, as of and for the year ended December 31, 2017, is as follows:

Total assets	\$ 106,713
Total liabilities	<u>35,005</u>
Total net assets	<u>\$ 71,708</u>
Total change in net assets	<u>\$ (141,715)</u>

Summarized financial information for Haven, as of and for the year ended December 31, 2017, is as follows:

Total assets	\$ 9,603,058
Total liabilities	<u>1,145,511</u>
Total net assets	<u>\$ 8,457,547</u>
Total change in net assets	<u>\$ 2,125,454</u>

Note 9 - Combination of Related Party Entities (Note 1) (continued)

Reference should be made to the financial statements of Place of Hope, Inc., Village of Hope of Palm Beach County, Inc., Thousand Hills Holding Company, Inc., and The Place of Hope at the Haven Campus, Inc. d/b/a The Place of Hope at the Leighan and David Rinker Campus as to which the independent auditor's reports are dated May 24, 2018.

Note 10 - Supplemental Cash Flows Information

Cash paid during the year for –

Interest expense	\$ <u>35,734</u>
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Treasures for Hope, Inc.
Schedule of Operating Expenses
For the Year Ended December 31, 2017

Operating Expenses:

Salaries, including in-kind donations of \$ 93,720	\$	270,557
Outreach		156,000
Insurance		54,549
Licenses, taxes and permits		20,016
Employee benefits and payroll taxes		19,788
Utilities		15,425
Bank charges and fees		11,824
Professional fees		11,764
Printing and reproduction		11,301
Storage rental		10,270
Repairs and maintenance		9,133
Automobile		7,594
Supplies		5,022
Communications		4,452
Public relations		1,830
Miscellaneous		937
Advertising and marketing		766
Regulatory compliance		215
		<hr/>
Total operating expenses	\$	<u>611,443</u>