

Audited Financial Statements

FOUNDATION OF H.O.P.E., INC.

For the Years Ended December 31, 2016 and 2015

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Table of Contents

Independent Auditor’s Report	1
Audited Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets.....	4
Statement of Functional Expenses – December 31, 2016.....	5
Statement of Functional Expenses – December 31, 2015.....	6
Statements of Cash Flows	7
Notes to Financial Statements.....	8



McKeever Varga & Senko

Certified Public Accountants

Personal Financial Planners

Business Consultants

Independent Auditor's Report

To the Board of Directors of
FOUNDATION OF H.O.P.E., INC.
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of Foundation of H.O.P.E., Inc. (a Pennsylvania nonprofit organization), which comprise the statements of financial position as of December 31, 2016, and the related statements of activities, functional expenses 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.

To the Board of Directors of
FOUNDATION OF H.O.P.E., INC.
(Continued)

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of Foundation of H.O.P.E., Inc. as of December 31, 2016, 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.

Prior Period Financial Statements

The financial statements of the Foundation of H.O.P.E., Inc. as of December 31, 2015, were audited by other auditors whose report dated October 20, 2016, expressed an unmodified opinion on those statements.



Certified Public Accountants

August 8, 2017
Pittsburgh, Pennsylvania

Audited Financial Statements

FOUNDATION OF H.O.P.E., INC.

Statements of Financial Position

At December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 144,849	\$ 270,597
Accounts receivable	12,585	-
Accounts receivable – related party	104,090	50,933
Grant receivable	37,500	-
Prepaid expenses	<u>2,968</u>	<u>7,634</u>
Total current assets	<u>301,992</u>	<u>329,164</u>
Property and equipment:		
Office equipment	3,041	1,391
Less: accumulated depreciation	<u>(1,597)</u>	<u>(669)</u>
Total property and equipment	<u>1,444</u>	<u>722</u>
Total assets	<u>\$ 303,436</u>	<u>\$ 329,886</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 18,987	\$ 5,242
Accrued expenses	8,250	14,149
Due to related party	<u>-</u>	<u>1,597</u>
Total liabilities	<u>27,237</u>	<u>20,988</u>
Net assets:		
Unrestricted net assets	81,532	89,394
Temporarily restricted net assets	<u>194,667</u>	<u>219,504</u>
Total net assets	<u>276,199</u>	<u>308,898</u>
Total liabilities and net assets	<u>\$ 303,436</u>	<u>\$ 329,886</u>

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

FOUNDATION OF H.O.P.E., INC.

Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Program services:						
Chaplaincy program	\$ 308,007	\$ -	\$ 308,007	\$ 332,774	\$ -	\$ 332,774
Pre-release program	167,931	-	167,931	141,846	-	141,846
Aftercare mentoring	20,110	-	20,110	5,305	-	5,305
Contributions	43,059	98,200	141,259	59,611	192,607	252,218
Fundraising events	32,413	-	32,413	27,618	-	27,618
Realized gain/(loss)	(87)	-	(87)	-	-	-
Net assets released from restrictions	123,037	(123,037)	-	48,103	(48,103)	-
Total revenue and support	694,470	(24,837)	669,633	615,257	144,504	759,761
Expenses:						
Program services:						
Chaplaincy program	342,079	-	342,079	319,443	-	319,443
Pre-release program	141,374	-	141,374	127,429	-	127,429
Aftercare mentoring	93,283	-	93,283	65,190	-	65,190
Support services:						
Administrative	81,606	-	81,606	81,461	-	81,461
Fundraising	43,990	-	43,990	39,321	-	39,321
Total expenses	702,332	-	702,332	632,844	-	632,844
Increase (decrease) in net assets	(7,862)	(24,837)	(32,699)	(17,587)	144,504	126,917
Net assets, beginning of year	89,394	219,504	308,898	106,981	75,000	181,981
Net assets, end of year	\$ 81,532	\$ 194,667	\$ 276,199	\$ 89,394	\$ 219,504	\$ 308,898

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

FOUNDATION OF H.O.P.E., INC.

Statement of Functional Expenses

For the Year Ended December 31, 2016

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Chaplaincy</u>	<u>Aftercare Mentoring</u>	<u>Pre- Release</u>	<u>Total Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 250,369	\$ 64,157	\$105,614	\$ 420,140	\$ 33,612	\$ 34,602	\$ 488,354
Employee benefits	11,678	2,992	4,926	19,596	1,568	1,614	22,778
Pension	15,116	3,873	6,376	25,365	2,029	2,089	29,483
Payroll taxes	12,552	3,217	5,295	21,064	1,685	1,735	24,484
Bank service charges	-	-	-	-	985	-	985
Fundraising events	-	-	-	-	-	3,730	3,730
Professional fees	10,761	-	6,080	16,841	25,360	-	42,201
Program services	34,541	8,891	5,865	49,297	73	-	49,370
Charitable contributions	-	-	-	-	1,050	-	1,050
Insurance	-	-	-	-	2,967	-	2,967
Office expenses	3,731	1,365	5,680	10,776	5,115	220	16,111
Rent	-	7,200	-	7,200	3,700	-	10,900
Travel and conferences	3,331	1,588	1,538	6,457	2,534	-	8,991
Depreciation	-	-	-	-	928	-	928
Total expenses	\$ 342,079	\$ 93,283	\$141,374	\$ 576,736	\$ 81,606	\$ 43,990	\$ 702,332

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

FOUNDATION OF H.O.P.E., INC.

Statement of Functional Expenses

For the Year Ended December 31, 2015

	Program Services			Supporting Services			
	Chaplaincy	Aftercare Mentoring	Pre- Release	Total Program	Administrative	Fundraising	Total
Salaries and wages	\$ 224,890	\$ 47,378	\$ 89,765	\$ 362,033	\$ 34,422	\$ 24,201	\$420,656
Employee benefits	25,399	6,516	12,638	44,553	6,685	-	51,238
Pension	17,265	2,304	4,280	23,849	2,405	-	26,254
Payroll taxes	7,911	2,587	4,779	15,277	3,495	-	18,772
Bank service charges	-	-	-	-	505	-	505
Fundraising events	-	-	-	-	-	13,216	13,216
Professional fees	13,388	-	5,613	19,001	14,731	-	33,732
Program services	24,658	1,749	3,970	30,377	379	-	30,756
Charitable contributions	-	-	-	-	250	-	250
Insurance	-	-	-	-	3,203	-	3,203
Office expenses	1,726	336	5,567	7,629	8,401	1,839	17,869
Rent	325	3,600	-	3,925	4,300	-	8,225
Travel and conferences	3,881	720	817	5,418	2,225	65	7,708
Depreciation	-	-	-	-	460	-	460
Total expenses	\$ 319,443	\$ 65,190	\$127,429	\$ 512,062	\$ 81,461	\$ 39,321	\$632,844

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

FOUNDATION OF H.O.P.E., INC.

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (32,699)	\$ 126,917
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	928	460
(Increase) decrease in:		
Accounts receivable	(12,585)	-
Accounts receivable – related party	(53,156)	(15,507)
Grant receivable	(37,500)	25,000
Prepaid expenses	4,665	(7,634)
Increase (decrease) in:		
Accounts payable	13,745	5,242
Accrued expenses	(5,899)	14,149
Due to related party	(1,597)	713
Net cash provided by (used for) operating activities	(124,098)	149,340
Cash flows from investing activities:		
(Purchase) of equipment	(1,650)	-
Net cash provided by (used for) investing activities	(1,650)	-
Net increase (decrease) in cash and cash equivalents	(125,748)	149,340
Cash and cash equivalents, beginning of year	270,597	121,257
Cash and cash equivalents, end of year	\$ 144,849	\$ 270,597
Supplemental disclosure:		
Cash paid for interest	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -

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

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 1. Nature of Activity and Operations

The Foundation of H.O.P.E., Inc. (the Foundation) is a faith-based nonprofit organization providing comprehensive chaplaincy ministry and pre-release and post-release after-care for offenders both within the Allegheny County Jail and within the outside community. The Foundation's mission and goal is successful community reintegration of men and women who have been incarcerated in the Allegheny County Jail. The source of most of the Foundation's revenues are program services fees from government agencies. The Foundation also receives a significant portion of its revenues from contributions received from individuals, foundations, and other nonprofit organizations.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The Foundation's financial statements were prepared using the accrual basis of accounting. Expenses are recognized in the period incurred. Revenues are recognized in the period in which they are earned.

B. Basis of Presentation

The Foundation presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 and subsections. Under this standard, the Foundation 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.

Accordingly, net assets and changes therein are classified in these financial statements as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. There were no permanently restricted net assets at December 31, 2016 and 2015.

The Foundation is also required to present a statement of cash flows.

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2016 and 2015

Note 2. Summary of Significant Accounting Policies (Continued)

C. Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Cash and Cash Equivalents

For purposes of reporting cash flows, cash consists of cash on hand and checking accounts. At times, balances in these accounts may be in excess of federally insured limits.

E. Contributions

Contributions are recorded in accordance with FASB ASC 958-310 and subsections. Under this standard, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

F. Accounts Receivable

Accounts receivable - related party represents amounts due from government contracts. All revenues are recognized when earned and receivables are recorded at net realizable value. The Foundation's policy for determining past due or delinquent status is based on how recently payments have been made or contractual terms, as applicable. It is the Foundation's policy to charge off uncollectable accounts receivable when management determines the receivable will not be collected. The Foundation has determined that no provision for uncollectable accounts receivable as of December 31, 2016 and 2015 is required.

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2016 and 2015

Note 2. Summary of Significant Accounting Policies (Continued)

G. Property and Equipment

It is the Foundation's policy to capitalize property and equipment purchases over \$1,000 and expense lesser amounts. Purchased property and equipment is recorded at cost and depreciated over the estimated useful life of the assets, using the straight-line method

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities and changes in net assets for the period. The cost of repairs and maintenance is charged to expense as incurred; whereas significant renewals and betterments are capitalized.

Depreciation expense totaled \$928 and \$460 for years ended December 31, 2016 and 2015, respectively.

H. Program Services

Fees for program services are recognized at the time the service is rendered.

I. Functional Allocation of Expenses

Costs of providing programs and other activities are summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefitted. Indirect costs are allocated between programs and supporting services in proportion to the number of personnel performing those functions, as estimated by management.

J. Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service that grants an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any income that may be a result of unrelated business transactions. The Foundation does not believe its financial statements include, or reflect, any uncertain tax positions that require disclosure under FASB ASC 740-10-25 (FIN 48).

The Foundation's IRS Forms 990, Return of Organization Exempt from Income Tax, for the fiscal years ended December 31, 2015, 2014, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2016 and 2015

Note 2. Summary of Significant Accounting Policies (Continued)

K. Reclassifications

Certain amounts in these financial statements for the year ended December 31, 2015 have been reclassified to conform with the reporting categories for the year ended December 31, 2016.

Note 3. Concentration of Credit Risk

The Foundation maintains its cash balance at a financial institution located in Pennsylvania, which at times may exceed federal insured limits of \$250,000. At December 31, 2016 and 2015, the Foundation's uninsured cash balance was \$-0- and \$21,511, respectively. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to cash.

Note 4. Restrictions on Net Assets

A. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or periods specified as follows during the years ended December 31 as follows:

	2016	2015
Create an executive director position to sustain faith-based programming for allegheny county jail inmates and ex-offenders	\$ 26,897	\$ 48,103
Inmate charities	11,428	-
Pre-release program	13,303	-
Aftercare program	71,409	-
	<u>123,037</u>	<u>48,103</u>
Total	<u>\$ 123,037</u>	<u>\$ 48,103</u>

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2016 and 2015

Note 4. Restrictions on Net Assets (Continued)

B. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31:

	2016	2015
Create an executive director position to sustain faith-based programming for allegheny county jail inmates and ex-offenders	\$ -	\$ 26,897
Inmate charities	68,983	80,411
Chaplaincy	52,696	52,696
Pre-release programs	5,000	9,500
Aftercare programs	67,988	50,000
	<u>67,988</u>	<u>50,000</u>
Total	<u>\$ 194,667</u>	<u>\$ 219,504</u>

Note 5. Related Party Transactions

Christian Associates of Southwestern Pennsylvania (CASP) has voting interest in the Foundation's governing board and is deemed to be a related party. CASP has two contracts through Allegheny County for Pre-Release and Chaplaincy programs. The Foundation performs all the duties within the scope of these contracts and invoices CASP for these services on a monthly basis.

On January 1, 2015, the administrative responsibility for the chaplaincy ministries at the Allegheny County Jail was transferred from CASP to the Foundation. The Foundation will perform all the duties to carry out the terms of the contract with Allegheny County; however, the contract still remains with CASP. The Foundation invoices CASP monthly for the services performed for chaplaincy ministries at the Allegheny County Jail. Additionally, on January 1, 2015 some personnel formerly paid by CASP became employees or independent contractors of the Foundation. Details of this transition are outlined in a memorandum of understanding dated August 2014 and approved by both organizations' governing boards.

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2016 and 2015

Note 5. Related Party Transactions (Continued)

For the years ended December 31, 2016 and 2015, the Foundation's program service revenue for the Pre-Release and Chaplaincy programs totaled \$475,938 and \$479,925 for services provided to Allegheny County under CASP's contracts for which the Foundation has administrative responsibility.

For the years ended December 31, 2016 and 2015, CASP made an unrestricted contribution to the Foundation totaling \$0- and \$133,108, respectively.

At December 31, 2016 and 2015, amounts due to the Foundation from CASP totaled \$104,090 and \$50,933, respectively. Amounts due to CASP were \$0- and \$1,597 at December 31, 2016 and 2015, respectively.

For the years ended December 31, 2016 and 2015, the Foundation paid CASP administrative and affiliation fees totaling \$15,211 and \$20,647, respectively. The Foundation also began paying CASP \$400 per month in rent for use of their facilities beginning February 2015 – see Note 7.

Note 6. Economic Dependency

The Foundation performs services under CASP contracts with Allegheny County and the U.S. Department of Justice for the Second Chance Act. For the years ended December 31, 2016 and 2015, revenue from this source comprised of 71% and 64% of total revenue, respectively.

During 2015, two contributors donated 73% of total contribution revenue. The contributions were comprised of one contribution in the amount of \$50,000 from an unrelated organization and one contribution in the amount of \$133,108 from CASP. During 2016, there were no significant contributions.

At December 31, 2016 and 2015, 89% and 100% of accounts receivable was comprised of amounts due from CASP, respectively.

FOUNDATION OF H.O.P.E., INC.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2016 and 2015

Note 7. Operating Leases

The Foundation is party to a lease agreement for office equipment which extends through the year 2020. Total lease expense amounted to \$4,192 and \$4,463 for years ended December 31, 2016 and 2015, respectively. At December 31, 2016, future minimum annual rental payments required under this lease with terms in excess of one year are as follows:

Year Ending December 31	
2017	\$ 3,492
2018	3,492
2019	3,492
2020	<u>291</u>
Total	<u>\$ 10,767</u>

The Foundation also leased office space on a month to month basis with CASP in the amount of \$400 per month during 2015 and one month of 2016.

During February 2016, the Foundation leased office space from an unrelated organization for \$300 a month. The Foundation rented aftercare office space for \$600 and \$300 a month during 2016 and 2015, respectively. Total rent expenses amounted to \$10,900 and \$8,225 for the years ended December 31, 2016 and 2015, respectively.

Note 8. Pension Plan

During 2015, the Foundation terminated their involvement with a multiemployer defined contribution pension plan covering eligible employees. The Foundation created a Simplified Employee Pension plan (the Plan) covering all employees who have attained certain age and service requirements and who are not covered by a collective bargaining agreement. Total contributions to retirement plans totaled \$29,483 and \$26,254 for the years ended December 31, 2016 and 2015, respectively.

Note 9. Evaluation of Subsequent Events

The Foundation has evaluated subsequent events through August 8, 2017, the date on which the financial statements were available to be issued.