

**ALAN JEFF, CPA, PC**  
*Certified Public Accountant*

2978 Colvin Boulevard  
Tonawanda, New York 14150

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(716) 693-3797

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Hearts Foundation, Inc.  
Buffalo, New York

***Report on the Financial Statements***

I have audited the accompanying financial statements of Hearts Foundation, Inc., a nonprofit organization (the 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***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the financial statements referred to above 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.

***Supplemental Information***

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained on pages 4 and 5 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 related 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Alan Jeff, CPA, PC  
Buffalo, New York  
May 4, 2018

A handwritten signature in black ink, appearing to read "Alan Jeff, CPA, PC". The signature is stylized and somewhat illegible due to overlapping loops and lines.

## HEARTS FOUNDATION, INC.

## Statement of Financial Position

December 31, 2017

ASSETS

## Current assets:

Cash, non-interest bearing, unrestricted	\$ 17,204
Cash, interest bearing, unrestricted	40,130
Accounts receivable	743
Prepaid expenses and deposits	9,996
Total current assets	<u>68,073</u>
Deferred charges, net	1,398
Equipment, net (Notes 2, 3 & 4)	<u>313,143</u>
	<u>\$ 382,614</u>

LIABILITIES AND NET ASSETS

## Current liabilities:

Accounts payable	\$ 25,397
Sales tax payable	1,323
Accrued and withheld payroll taxes	690
Accrued payroll	14,029
Deferred resources	891
Current maturities of long-term debt (Notes 3 & 4)	<u>58,668</u>
Total current liabilities	100,998
Long-term debt (Notes 3 & 4)	137,828
Net assets: (Notes 1, 2 & 5)	
Unrestricted:	
Undesignated	27,141
Represented by equipment	<u>116,647</u>
Total net assets	<u>143,788</u>
	<u>\$ 382,614</u>

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

## HEARTS FOUNDATION, INC.

## Statement of Activities

For the year ended December 31, 2017

Resources:		
Support:		
Donations		\$ <u>-0-</u>
Total support		<u>-0-</u>
Revenues:		
Thrift shop sales		1,005,809
Interest income		<u>18</u>
Total revenue		<u>1,005,827</u>
Total resources		1,005,827
Expenditures:		
Personnel costs		569,539
Program services		325,318
Administrative and general		<u>45,900</u>
Total expenditures		<u>940,757</u>
Change in net assets;		
Excess resources		65,070
Net assets, beginning of year		<u>78,718</u>
Net assets, end of year		<u><u>\$ 143,788</u></u>

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

## HEARTS FOUNDATION, INC.

## Statement of Cash Flow

For the year ended December 31, 2017

Cash Flows from Operating Activities:	
Change in net assets	\$ 65,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in accounts receivable	10,905
Increase in prepaid expenses and deposits	(137)
Decrease in accounts payable	(3,552)
Decrease in sales tax payable	(329)
Increase in accrued and withheld payroll taxes	330
Increase in accrued payroll	6,881
Decrease in deferred resources	(23,003)
Increase in current maturities of long-term debt	4,582
Decrease in long-term debt	(59,917)
Depreciation	86,255
Amortization	364
Net cash provided by operating activities	<u>87,459</u>
Cash Flows from Investing Activities:	
Cash paid for equipment	<u>38,798</u>
Net cash used by investing activities	<u>(38,798)</u>
Net increase in cash	48,661
Cash balance, beginning of year	<u>8,673</u>
Cash balance, end of year	<u><u>\$ 57,334</u></u>

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

## HEARTS FOUNDATION, INC.

## Schedules of Expenditures

For the year ended December 31, 2017

## Personnel Costs:

Staff salaries	\$ 374,774
Officers salaries	103,723
Payroll taxes	36,172
Health insurance	20,736
Day labor	16,823
Workers compensation and disability	12,065
Personal mileage	3,065
Payroll preparation	1,160
Personal life insurance	831
Medical	190
Total personnel costs	<u>\$ 569,539</u>

## Program Services:

BRC general	\$ 139,660
Depreciation	86,255
Grants to Hearts For The Homeless of WNY, Inc.	55,000
Insurance	23,886
Store utilities	4,909
Store supplies	4,355
Credit card fees	3,090
Organization life insurance	2,702
Advertising and marketing	1,912
Grand prizes and gifts	1,330
Purchases for resale	843
Building maintenance	830
Telephone	546
Total program services	<u>\$ 325,318</u>

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

## HEARTS FOUNDATION, INC.

## Schedules of Expenditures (cont.)

For the year ended December 31, 2017

## Administrative and General:

Trash removal	\$ 21,368
Interest	13,545
Office and computer supplies	3,551
Accounting and audit	2,850
Bank fees	1,748
Bad debts	1,095
Fees	768
Postage	436
Amortization	364
Dues and subscriptions	95
NYS filing fee	75
Internet and web	5
Total administrative and general	\$ <u><u>45,900</u></u>

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

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements

December 31, 2017

## Note 1 - Nature of Organization:

Hearts Foundation, Inc. operates Hearts Thrift Shop. The organization exists to support the activities and purposes of Hearts For The Homeless of Western New York, Inc., which provides physical and spiritual relief to the homeless, poor, and distressed and shares the Gospel of Jesus Christ to men, women, and children.

Hearts Foundation, Inc. was incorporated in New York State under section 402 of the Not-For-Profit Corporation Law on May 22, 2003.

Hearts Foundation, Inc. is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law, and therefore, contributions by the public are tax deductible within the limitations prescribed by the Code. The organization has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code. The organization files an annual Internal Revenue Service Form 990, "Return of Organization Exempt from Income Tax." The organization has registered with the New York State Charitable Foundations Division as a Charitable Corporation, and files an annual New York State Form CHAR-500, "Annual Filing for Charitable Organizations."

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements (cont.)

December 31, 2017

## Note 2 - Summary of Significant Accounting Policies:

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

The organization's accounts are maintained, and these financial statements are presented, on the accrual basis of accounting. This method is required by United States generally accepted accounting principles. The assets and liabilities of Hearts Foundation, Inc. are reported as one of three classes of net assets: unrestricted, temporarily restricted, or permanently restricted, in accordance with FASB ASC 958-205

The accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes.

Hearts Foundation, Inc. uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Equipment is recorded at cost. Capital assets acquired are depreciated using the modified accelerated cost recovery system (MACRS).

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements (cont.)

December 31, 2017

## Note 2 - Summary of Significant Accounting Policies (cont.):

**Net Assets**

The financial statements report amounts separately by class of net assets as follows:

**Unrestricted** - Net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations. The organization may designate portions of its unrestricted net assets as board designated for various purposes.

**Temporarily restricted** - Net assets resulting from contributions and other inflows of assets, whose use by the organization is limited by donor imposed stipulations that either expire by the passage of time or can be fulfilled, or otherwise removed, by actions of the organization meeting the purpose of the restriction.

**Permanently restricted** - Net assets resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled, or otherwise removed, by actions of the organization. Although such assets cannot be expended, the investment income earned on them is generally to be expended for a specific purpose.

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements (cont.)

December 31, 2017

## Note 2 - Summary of Significant Accounting Policies (cont.):

**Resources**

Contributions are recorded when made, which may be when cash is received, unconditionally promised, or ownership of donated assets is transferred. Hearts Foundation, Inc. shows restricted contributions whose restrictions have been met in the reporting period as unrestricted support. If the restrictions are not satisfied in the same reporting period, the contributions are recorded as temporarily restricted. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from purpose restrictions. All contributions are considered available for the general program of the organization, unless specifically restricted by the donor or subject to other legal restrictions.

Hearts Foundation, Inc. treats all receipts as “unrestricted” and available for general operational purposes, except gifts and contributions from donors who have specified the purposes for which their contributions are to be used and amounts designated by the Board of Directors as restricted for a particular use.

In the absence of donor restrictions as to the periods in which funds received from legacies and bequests are to be used, revenue is recorded when the award is received.

Contributions other than cash are recorded at the fair market value of the donated asset at the date of donation.

**Allocation of Expenditures**

The costs of providing the various program services and supporting activities of the organization have been summarized on a functional basis in the statement of activities. Accordingly certain costs have been allocated among the program services and supporting activities.

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements (cont.)

December 31, 2017

## Note 3 - Equipment:

The following is a summary of equipment, at cost, less accumulated depreciation, at December 31, 2017:

Building equipment	\$ 468,689
Vehicles	164,212
Computer equipment	2,417
Office equipment	<u>1,655</u>
	636,973
Less: accumulated depreciation	<u>(323,830)</u>
Net equipment	<u><u>\$ 313,143</u></u>

Depreciation expense amounted to \$86,255. for the year ended December 31, 2017.

The useful lives of equipment for purposes of computing depreciation are:

Building equipment	7 years
Vehicles	5-7 years
Computer equipment	5 years
Office equipment	7 years

Vehicles are encumbered by liens amounting to \$74,009. at December 31, 2017. (See Note 4).

Building equipment is encumbered by liens amounting to \$122,487. at December 31, 2017. (See Note 4).

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements (cont.)

December 31, 2017

## Note 4 - Long-term Debt:

The following is a summary of long-term debt at December 31, 2017:

M&T Bank; interest at 6.14%; monthly payments of \$2,944.; secured by all property of the organization and Hearts For The Homeless of WNY, Inc., whether real, personal, or of whatever kind or nature and wherever situated, and whether now owned or hereafter acquired or arising; personally guaranteed by corporate officers; last payment due 11/13/21. The amount due within one year is approximately \$28,500. (See Note 3).	\$ 122,487
TD Bank; interest at 4.29%; monthly payments of \$752.; secured by 2015 Chevy Silverado; last payment is due January, 2022. The amount due within one year is \$7,762. (See Note 3).	32,995
Hitachi Capital America Corporation; interest at 5.75%; monthly payments of \$985.; secured by 2014 Isuzu van; last payment is due July, 2019. The amount due within one year is \$11,086. (See Note 3).	17,852
M&T Credit Corporation; interest at 5.79%; monthly payments of \$517.; secured by 2011 GMC Box Truck; last payment is due 1/27/20. The amount due within one year is \$5,675. (See Note 3). This indebtedness was prematurely fully satisfied on January 10, 2018	11,663
Direct Capital Corporation; interest at 5.50%; monthly payments of \$515.; secured by 2009 GMC; last payment is due May 2020. The amount due within one year is \$5,645. (See Note 3)	11,499
	<u>196,496</u>
Less: current maturities included in current liabilities	<u>58,668</u>
Long-term debt	<u><u>\$ 137,828</u></u>

## HEARTS FOUNDATION, INC.

## Notes to Financial Statements (cont.)

December 31, 2017

## Note 5 - Donated Services:

No amounts have been reflected in the financial statements for donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the organization's program services.