

**Helping Up Mission, Inc.
and Subsidiary**

**Audited Consolidated
Financial Statements**

June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Helping Up Mission, Inc. and Subsidiary
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Helping Up Mission, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the years 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Helping Up Mission, Inc. and Subsidiary as of June 30, 2017 and 2016, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Fitzpatrick, Leary + Sparks, LLC

September 26, 2017
Timonium, MD

Helping Up Mission, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30,	<u>2017</u>	<u>2016</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 692,353	\$ 1,754,607
Accounts receivable, net of allowance	86,146	107,085
Grant receivable	200,000	200,000
Prepaid expenses	69,465	59,464
Total current assets	<u>1,047,964</u>	<u>2,121,156</u>
Property and Equipment:		
Buildings and improvements	17,803,133	15,840,173
Furniture and equipment	948,351	875,279
Vehicles	207,681	182,042
Total	18,959,165	16,897,494
Less accumulated depreciation	<u>4,192,968</u>	<u>4,498,578</u>
	14,766,197	12,398,916
Land	770,700	400,500
Construction in progress	229,445	102,431
Net property and equipment	<u>15,766,342</u>	<u>12,901,847</u>
Other Assets:		
Investments	3,428,902	3,075,341
Deposits	2,800	91,278
Total other assets	<u>3,431,702</u>	<u>3,166,619</u>
Total Assets	<u>\$ 20,246,008</u>	<u>\$ 18,189,622</u>

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

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
Current Liabilities:		
Current maturities of loans payable	\$ 167,418	\$ 64,757
Current maturities of annuities payable	4,477	4,302
Accounts payable	93,537	130,713
Accrued expenses	150,529	140,468
Deferred rent liability	29,159	6,034
Total current liabilities	<u>445,120</u>	<u>346,274</u>
Long-Term Liabilities:		
Line of credit	500,000	-
Loans payable, net of current maturities	2,923,153	1,488,340
Annuities payable	43,053	47,530
Total long-term liabilities	<u>3,466,206</u>	<u>1,535,870</u>
Total liabilities	<u>3,911,326</u>	<u>1,882,144</u>
Net Assets:		
Unrestricted:		
Board-designated	600,000	937,256
Undesignated	14,503,753	14,289,013
Total unrestricted net assets	15,103,753	15,226,269
Temporarily restricted	1,230,929	1,081,209
Total net assets	<u>16,334,682</u>	<u>16,307,478</u>
Total Liabilities and Net Assets	<u>\$ 20,246,008</u>	<u>\$ 18,189,622</u>

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

Helping Up Mission, Inc. and Subsidiary

Consolidated Statements of Activities

For the years ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Support:						
Contributions and gifts	\$ 4,536,196	\$ 640,922	\$ 5,177,118	\$ 4,475,319	\$ 1,221,316	\$ 5,696,635
In-kind donations	3,543,980	-	3,543,980	2,782,697	-	2,782,697
Net assets released from restrictions	491,202	(491,202)	-	211,979	(211,979)	-
Total support	8,571,378	149,720	8,721,098	7,469,995	1,009,337	8,479,332
Revenue:						
Program fees	2,232,208	-	2,232,208	2,228,532	-	2,228,532
MRN client services	475,977	-	475,977	644,861	-	644,861
Rental income	76,077	-	76,077	69,008	-	69,008
Other income	124,080	-	124,080	13,111	-	13,111
Total revenue	2,908,342	-	2,908,342	2,955,512	-	2,955,512
Total support and revenue	11,479,720	149,720	11,629,440	10,425,507	1,009,337	11,434,844
Functional Expenses:						
Program services	9,698,742	-	9,698,742	8,530,536	-	8,530,536
Administrative and general	524,600	-	524,600	490,349	-	490,349
Fundraising	1,656,460	-	1,656,460	1,270,604	-	1,270,604
Total functional expenses	11,879,802	-	11,879,802	10,291,489	-	10,291,489
(Decrease) increase in net assets from operations	(400,082)	149,720	(250,362)	134,018	1,009,337	1,143,355
Other Income (Expense):						
Gain (loss) on disposal of fixed assets	200	-	200	-	-	-
Investment income	343,165	-	343,165	106,474	-	106,474
Impairment loss	(65,799)	-	(65,799)	-	-	-
Total other income	277,566	-	277,566	106,474	-	106,474
(Decrease) increase in net assets	(122,516)	149,720	27,204	240,492	1,009,337	1,249,829
Net assets - beginning of year	15,226,269	1,081,209	16,307,478	14,985,777	71,872	15,057,649
Net assets - end of year	\$ 15,103,753	\$ 1,230,929	\$ 16,334,682	\$ 15,226,269	\$ 1,081,209	\$ 16,307,478

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

Helping Up Mission, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended June 30,	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase in net assets	\$ 27,204	\$ 1,249,829
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of debt issuance costs included in interest expense	2,569	2,569
Depreciation	647,316	560,207
Gain on disposal of property and equipment	(200)	-
(Gain) loss on sale of investments	(120,105)	445
Impairment loss	65,799	-
Principal reduction of notes payable	(66,000)	-
Unrealized (gain) loss on investments	(124,435)	107,995
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	20,939	7,385
Grants receivable	-	(200,000)
Prepaid expenses	(10,001)	21,235
Deposits	88,478	(84,178)
(Decrease) increase in:		
Accounts payable	(37,176)	97,865
Accrued expenses	10,061	4,247
Deferred rent liability	23,125	6,034
Net cash provided by operating activities	<u>527,574</u>	<u>1,773,633</u>
Cash flows from investing activities:		
Purchase of investments	(1,066,180)	(435,018)
Proceeds from sale of investments	957,158	88,007
Cash paid for purchase of property and equipment	(1,427,609)	(105,628)
Proceeds from sale of property and equipment	200	-
Net cash used in investing activities	<u>(1,536,431)</u>	<u>(452,639)</u>
Cash flows from financing activities:		
Repayments - long-term debt	(49,095)	(62,356)
Payments on annuities payable	(4,302)	(4,136)
Net cash used in financing activities	<u>(53,397)</u>	<u>(66,492)</u>
Net (decrease) increase in cash and cash equivalents	<u>(1,062,254)</u>	<u>1,254,502</u>
Cash and cash equivalents, beginning of year	<u>1,754,607</u>	<u>500,105</u>
Cash and cash equivalents, end of year	<u>\$ 692,353</u>	<u>\$ 1,754,607</u>

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

Helping Up Mission, Inc. and Subsidiary

Consolidated Statements of Functional Expenses

For the year ended June 30, 2017 (with comparative totals for 2016)

	Program Services	Administrative and General	Fundraising	Total	
				2017	2016
Annuity interest	\$ -	\$ 2,048	\$ -	\$ 2,048	\$ 2,214
Bank and investment fees	387	40,759	79	41,225	26,891
Banquet	143,056	-	-	143,056	142,037
Camps	68,235	-	-	68,235	65,240
Conference, seminars and meetings	7,653	14,565	4,709	26,927	28,169
Cultivation and acquisition	925	500	977,259	978,684	836,319
Depreciation	640,270	3,523	3,523	647,316	560,207
Equipment lease and maintenance	71,537	14,866	30,689	117,092	115,060
Kitchen	580,160	402	2,880	583,442	592,006
Housekeeping	72,235	-	-	72,235	66,209
Insurance	83,023	35,581	-	118,604	97,175
Interest	126,172	-	-	126,172	67,030
Memberships and subscriptions	7,119	10,290	2,055	19,464	18,493
MRN assistance to individuals	201,039	-	-	201,039	308,816
Newsletter expenses	133,714	-	22,496	156,210	151,686
Printing, postage and shipping	4,132	1,950	642	6,724	7,820
Professional and contractual services	121,097	58,749	84,787	264,633	206,644
Public awareness	-	-	70,530	70,530	74,775
Occupancy cost	154,525	-	-	154,525	87,634
Repairs and maintenance - building	273,113	-	-	273,113	222,022
Residents' assistance	212,452	-	-	212,452	190,192
Salaries and related expenses	2,739,211	314,824	428,407	3,482,442	3,193,911
Special events	1,080	3,168	14,323	18,571	15,922
Supplies	24,342	4,624	3,193	32,159	28,825
Taxes - other	20,893	-	-	20,893	-
Telephone and communication	36,855	8,844	6,598	52,297	48,288
Travel and entertainment	3,047	8,817	3,200	15,064	9,212
Utilities	381,767	1,090	1,090	383,947	350,475
Vehicles	46,723	-	-	46,723	37,624
Subtotal	6,154,762	524,600	1,656,460	8,335,822	7,550,896
Non-cash distributions:					
Donated merchandise distribution	1,327,250	-	-	1,327,250	1,072,082
Donated professional services distribution	999,379	-	-	999,379	721,194
Donated food distribution	1,217,351	-	-	1,217,351	947,317
Subtotal - Non-cash distributions	3,543,980	-	-	3,543,980	2,740,593
Total functional expenses	\$ 9,698,742	\$ 524,600	\$ 1,656,460	\$ 11,879,802	\$ 10,291,489

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

Helping Up Mission, Inc. and Subsidiary

Consolidated Statements of Functional Expenses

For the year ended June 30, 2016

	Program Services	Administrative and General	Fundraising	2016
Annuity interest	\$ -	\$ 2,214	\$ -	\$ 2,214
Bank and investment fees	150	26,741	-	26,891
Banquet	142,037	-	-	142,037
Camps	65,240	-	-	65,240
Conference, seminars and meetings	15,815	12,185	169	28,169
Cultivation and acquisition	5,104	5,509	825,706	836,319
Depreciation	554,809	2,699	2,699	560,207
Equipment lease and maintenance	63,607	12,564	38,889	115,060
Kitchen	590,658	323	1,025	592,006
Housekeeping	66,209	-	-	66,209
Insurance	68,022	29,153	-	97,175
Interest	67,030	-	-	67,030
Memberships and subscriptions	8,097	7,491	2,905	18,493
MRN assistance to individuals	308,816	-	-	308,816
Newsletter expenses	151,686	-	-	151,686
Printing, postage and shipping	5,418	1,693	709	7,820
Professional and contractual services	161,964	44,640	40	206,644
Public awareness	-	345	74,430	74,775
Occupancy cost	87,634	-	-	87,634
Repairs and maintenance - building	221,369	653	-	222,022
Residents' assistance	190,192	-	-	190,192
Salaries and related expenses	2,572,990	323,201	297,720	3,193,911
Special events	2,248	-	13,674	15,922
Supplies	19,551	4,622	4,652	28,825
Telephone and communication	33,140	9,181	5,967	48,288
Travel and entertainment	1,726	6,301	1,185	9,212
Utilities	348,807	834	834	350,475
Vehicles	37,624	-	-	37,624
Subtotal	5,789,943	490,349	1,270,604	7,550,896
Non-cash distributions:				
Donated merchandise distribution	1,072,082	-	-	1,072,082
Donated professional services distribution	721,194	-	-	721,194
Donated food distribution	947,317	-	-	947,317
Subtotal - Non-cash distributions	2,740,593	-	-	2,740,593
Total functional expenses	<u>\$ 8,530,536</u>	<u>\$ 490,349</u>	<u>\$ 1,270,604</u>	<u>\$ 10,291,489</u>

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

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

1. Nature of Operations

Helping Up Mission, Inc. is a non-profit organization whose purpose is to educate and engage the public in providing help for those experiencing homelessness, poverty or addiction through programs designed to meet unique physical, psychological, social and spiritual needs. The Organization operates primarily on funds received from the general public and program fees.

House of Freedom, Inc. is a non-profit organization whose purpose is to continue the work of Helping Up Mission, Inc. by providing transitional housing, supportive services, and other assistance to men who do not have permanent housing and are victims of substance abuse or the ill-effects of society in general in order to prepare them to become responsible and useful members of the community and society. The Organization operates primarily on funds received from program fees.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of Helping Up Mission, Inc. and Subsidiary include the accounts of Helping Up Mission, Inc. and House of Freedom, Inc., hereinafter collectively referred to as "the Organizations". Helping Up Mission, Inc. and House of Freedom, Inc. are governed by the same Board of Directors. All material inter-organization transactions and balances have been eliminated in consolidation.

Financial Statement Presentation

The consolidated financial statements of the Organizations have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Revenue is recognized when earned and expenses are recognized when incurred.

The Organizations are required to report information regarding their financial positions and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. These assets are currently available to support the Organizations' operations.

Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organizations pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. As of June 30, 2017 and 2016, the Organizations had temporarily restricted net assets totaling \$1,230,929 and \$1,081,209, respectively.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organizations' actions. As of June 30, 2017 and 2016, the Organizations had no permanently restricted net assets.

Cash and Cash Equivalents

The Organizations consider all short-term investments with an original maturity of three months or less to be a cash equivalent.

The Organizations, at times throughout the year, have (or may have had) funds on deposit with a financial institution in excess of federally insured amounts. The Organizations have not experienced any losses on cash accounts and management believes they are not exposed to significant credit risk on cash. Total cash and cash equivalents that were not covered by Federal Deposit Insurance Corporation insurance at June 30, 2017 and 2016 was \$622,396 and \$1,312,403, respectively.

Accounts Receivable, Credit Policies and Allowance for Doubtful Accounts

Accounts receivable are uncollateralized obligations due for program fees related to overnight boarding and transportation services provided to various partner organizations and other amounts billed for services provided to men under various programs. Payment is required within 30 days from the invoice date. Follow-up correspondence is made if unpaid accounts receivable go beyond 60 days. Statements for unpaid balances are not generated and delinquency fees are not assessed. Payments of accounts receivable are applied to the specific invoices identified on the remittance advice or, if unspecified, are applied to the oldest unpaid invoices.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that may not be collected. Management individually reviews all accounts receivable balances that exceed the due date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that may not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. Accounts receivable are deemed fully collectible at June 30, 2017 and 2016, and therefore, the Organizations have not established an allowance for doubtful accounts. There was no bad debt expense for the years ended June 30, 2017 and 2016.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Financial Risk

The Organizations invest in a portfolio that contains mutual funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Fair Value Measurements

The Organizations have characterized its investments in securities and other investments based on the priority of inputs using the three-level fair value hierarchy in accordance with the provisions under generally accepted accounting principles. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investments. Marketable securities and long-term capital campaign pledges recorded in the financial statements are categorized based on the inputs to valuation techniques as follows:

Level 1 - These are assets where values are based on unadjusted quoted prices for identical assets in the active market the Organizations have the ability to access. All mutual funds held by the Organizations are considered to be level 1.

Level 2 - These are assets where values are based upon quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. The Organizations currently have no level 2 assets.

Level 3 - These are assets where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. The Organizations investment in jewelry donated during the year ended June 30, 2016 was considered a level 3 investment.

Estimated fair value amounts have been determined using available market information and the valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts the Organizations could realize in a current market. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of current receivables and payables approximate fair value due to the short-term nature of these assets.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Investments

Investment securities are carried at fair value based on quoted market prices. The change in net unrealized appreciation (depreciation) of marketable securities for the year is reflected in the Statements of Activities in "investment income." Realized gains and losses on sales of investments are computed on an average cost basis and are recorded on the trade date of the transaction and are also included in "investment income."

Property and Equipment and Depreciation

Property and equipment are stated at cost if purchased, or fair market value if obtained through donation. The Organizations capitalize expenditures greater than or equal to \$2,500 that qualify as property and equipment. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	15 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	3 - 10 years

Depreciation expense was \$647,316 and \$560,207 for the years ended June 30, 2017 and 2016, respectively.

Restricted and Unrestricted Revenue

Contributions, pledges and grants are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Organizations report contributions of cash and other assets (including grants) as restricted support if they are received with donor stipulations that limit the time period or manner of use of the contribution. These donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as "net assets released from restrictions".

Donated Materials and Services

In-kind donations consist of donated food, supplies, merchandise and professional services. Members of the Board of Directors and others have made significant contributions of their time and talents in development of the programs and fundraising operations of the Organizations. These services include medical care, counseling, education, legal and income tax preparation. These donations are recorded at their estimated fair value at the date of receipt. Donated food and merchandise distributions and professional service distribution equal the value of the donations. These expenses are recorded at the date of receipt due to the rapid turnover of donated items.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Deferred Rent Liability

The Organizations recognize rental expense for leases with scheduled rent increases on the straight-line basis over the life of the lease.

Income Taxes

The Organizations are exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in these financial statements.

The Organizations account for income tax provisions in accordance with Financial Accounting Standards Board Accounting Standards Concept Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The Organizations believe that its income tax filing positions and deductions will be sustained upon examination and, accordingly, have not recorded any reserves, or related accruals for interest and penalties, at June 30, 2017 and 2016 for uncertain income tax positions. The Organizations continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Organizations have adopted a policy under which, if required to be recognized in the future, will classify interest related to the underpayment of income taxes as a component of interest expense, and will classify any related penalties in administrative and general expenses in the Consolidated Statements of Functional Expenses and Consolidated Statements of Activities. With few exceptions, the Organizations are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years ending before June 30, 2014.

Use of Estimates

The preparation of consolidated 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and in the Consolidated Statements

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Organizations expense advertising costs the first time the advertising takes place. The amounts charged to advertising expense totaled \$40,665 and \$50,926 for the years ended June 30, 2017 and 2016, respectively. Advertising expense is included in "public awareness" in the Consolidated Statements of Functional Expenses.

3. Grant receivable

In December 2015, House of Freedom, Inc. was awarded a grant from The Harry and Jeannette Weinberg Foundation in the amount of \$400,000. The grant is to be used for the construction, repair, and renovation of the commercial kitchen and dining room. In order to receive the funds, House of Freedom was required to meet certain matching requirements. All of the matching requirements were met as of June 30, 2016, and House of Freedom recognized revenue in full under the grant agreement. Grant receivable totaled \$200,000 at June 30, 2017 and 2016, representing amounts earned but not yet received related to this grant agreement as of the balance sheet date. These amounts are considered fully collectible at June 30, 2017, and accordingly, no allowance for doubtful accounts is required.

4. Investments

Investments are recorded at fair value and consist of the following at June 30:

	<u>Cost</u>	<u>Net-Unrealized Appreciation</u>	<u>Fair Value</u>
<u>2017</u>			
Mutual funds	<u>\$2,933,813</u>	<u>\$ 495,089</u>	<u>\$ 3,428,902</u>
<u>2016</u>			
Mutual funds	<u>\$2,662,583</u>	<u>\$ 370,654</u>	<u>\$ 3,033,237</u>
Other investments (jewelry)	<u>42,104</u>	<u>-</u>	<u>42,104</u>
Total investments	<u>\$2,704,687</u>	<u>\$ 370,654</u>	<u>\$ 3,075,341</u>

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

4. Investments (continued)

Investment income consists of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 98,625	\$ 214,914
Gain (loss) on sale of investments	120,105	(445)
Change in unrealized appreciation (depreciation) on investments	<u>124,435</u>	<u>(107,995)</u>
Total return on investments	<u>\$ 343,165</u>	<u>\$ 106,474</u>

An investment may be considered to be impaired if its cost basis exceeds its fair value thus resulting in unrealized depreciation. Investments are reported at their fair market value, thus any impairment losses have already been recognized through unrealized gains or losses in the Consolidated Statements of Activities. Management considers any investment portfolio losses to be temporary.

Investments included in the portfolio that have been in a continuous loss position are as follows at June 30, 2017:

	<u>Less than 12 months</u>
	Fair Unrealized <u>Value</u> <u>Losses</u>
Mutual funds	<u>\$ 761,773</u> <u>\$ (2,545)</u>

Fair values of assets measured on a recurring basis at June 30, 2017 and 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Quoted Prices in Inactive Markets (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>2017</u>				
Mutual funds	<u>\$ 3,428,902</u>	<u>\$ 3,428,902</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2016</u>				
Mutual funds	\$ 3,033,237	\$ 3,033,237	\$ -	\$ -
Other investments (jewelry)	42,104	-	-	42,104
	<u>\$ 3,075,341</u>	<u>\$ 3,033,237</u>	<u>\$ -</u>	<u>\$ 42,104</u>

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

4. Investments (continued)

The table below presents information about the change in the level 3 assets, which are measured at fair value on a recurring basis using significant unobservable inputs:

Balance, July 1, 2016	\$ 42,104
Sale of jewelry	<u>(42,104)</u>
Balance, June 30, 2017	<u>\$ -</u>

5. Lines of Credit

Helping Up Mission, Inc. has an equipment line of credit authorized to \$100,000. Draws under this line will be supported by individual notes for a term not to exceed 60 months and bear interest at 275 basis points over the U.S. Treasury rate when they become notes. There were no equipment loans outstanding as of June 30, 2017 and 2016. The amount available under this line of credit was \$100,000 at June 30, 2017 and 2016, respectively.

Helping Up Mission, Inc. has an available line of credit authorized up to \$500,000 with interest computed on the aggregate unpaid balance based on the prime rate as published in the money rates section of the Wall Street Journal (4.25% at June 30, 2017). The balance outstanding on the line of credit was \$500,000 and \$-0- at June 30, 2017 and 2016, respectively. The line of credit is secured by certain real property and House of Freedom, Inc. is a guarantor. The line of credit contains certain financial covenants which were met at June 30, 2017 and 2016. Helping Up Mission, Inc. is required to repay the line of credit and any outstanding accrued interest on August 18, 2019 and therefore, the balance has been included as long-term in the accompanying Consolidated Statements of Financial Position.

6. Long-Term Debt

Helping Up Mission, Inc. obtained a loan with a bank in October 2003, refinancing in 2005 and 2010, for \$1,400,000, to be drawn as necessary, to provide additional financing for renovations to 1017 East Baltimore Street. Monthly principal and interest payments of \$9,609, including interest at 6.75%, were required under the loan agreement with all unpaid principal and interest due and payable in March 2015. This loan was refinanced with a new bank during the year ended June 30, 2014. Under the terms of the new loan agreement, monthly installments totaling \$7,989, including interest at 3.98%, are now required with the unpaid principal balance of the loan due in September 2018. A security interest on 1017 East Baltimore Street secures this debt, and House of Freedom, Inc. is a guarantor of the loan. The outstanding loan balance for this term loan was \$1,136,812 and \$1,185,714 at June 30, 2017 and 2016, respectively.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

6. Long-Term Debt (continued)

In July 2009, Helping Up Mission, Inc. entered into a construction loan with a bank not to exceed \$4,000,000 for renovations to be made at 1027-1029 East Baltimore Street. The proceeds of the loan could be advanced from time to time upon the Borrower's request during the construction period. Monthly principal and interest payments of \$10,198 were required under the loan agreement, using a 25-year amortization schedule, with all unpaid principal and interest due and payable on September 1, 2015. The interest rate was equal to 275 basis points over the five year Treasury Rate as published in the Wall Street Journal, with a floor of 6.6%. This loan was refinanced with same bank during the year ended June 30, 2014. Monthly installments totaling \$2,579, including interest at 3.98%, are now required with the unpaid principal balance of the loan due in September 2018. The outstanding balance on this loan was \$356,757 and \$372,949 at June 30, 2017 and 2016, respectively.

In August 2016, Helping Up Mission, Inc. entered into a loan agreement with a bank for \$500,000 to assist with the cost of obtaining property in Baltimore City. The loan requires payments of interest only through the maturity date of August 19, 2019, with interest computed on the aggregate unpaid balance based on the prime rate as published in the Wall Street Journal (4.25% at June 30, 2017). The loan is secured by accounts receivable and certain equipment and is guaranteed by House of Freedom, Inc. The balance outstanding on the loan was \$500,000 and \$-0- at June 30, 2017 and 2016, respectively.

In August 2016, House of Freedom, Inc. obtained a seller-financed loan for certain property acquisitions totaling \$1,150,000. The loan required monthly payments of interest only at 3.5% through maturity of the loan on August 22, 2019. The loan was secured by property at 1216 E. Baltimore Street and was guaranteed by Helping Up Mission, Inc. The loan was repaid in full in March 2017, including an agreed upon reduction in principal at closing of \$66,000.

In March 2017, Helping Up Mission entered into a loan agreement with a bank for \$1,000,000, the proceeds of which were used to pay off the seller financed loan noted above. The loan requires payments of interest only through the maturity date of March 20, 2020, with interest computed on the aggregate unpaid balance based on the LIBOR daily floating rate plus 2% (3.22% at June 30, 2017). The loan is secured by property at 1216 E. Baltimore Street. The balance outstanding on the loan was \$1,000,000 and \$-0- at June 30, 2017 and 2016, respectively.

In March 2017, Helping Up Mission entered into a loan agreement with a bank for \$100,000. The loan requires payments of interest only through the maturity date of April 20, 2018, with interest computed on the aggregate unpaid balance based on the LIBOR daily floating rate plus 2% (3.22% at June 30, 2017). The loan is secured by property at 1216 E. Baltimore Street. The balance outstanding on the loan was \$100,000 and \$-0- at June 30, 2017 and 2016, respectively.

The above loans contain certain financial covenants which were met as of June 30, 2017 and 2016, respectively.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

6. Long-Term Debt (continued)

A summary of long-term debt at June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Total long-term debt related to above loans	\$ 3,093,569	\$ 1,558,663
Less: Unamortized debt issuance costs	<u>2,998</u>	<u>5,566</u>
Long-term debt, less unamortized debt issuance costs	3,090,571	1,553,097
Less: current portion of long-term debt	<u>167,418</u>	<u>64,757</u>
Total long-term debt, less current portion	<u>\$ 2,923,153</u>	<u>\$ 1,488,340</u>

Future minimum principal payments for long-term debt are as follows:

<u>Years Ending</u>	<u>Amount</u>
<u>June 30,</u>	
2018	\$ 167,418
2019	1,426,151
2020	<u>1,500,000</u>
Total	<u>\$ 3,093,569</u>

Consolidated interest expense on the long-term debt and lines of credit (including amortization of loan issuance costs reported as interest expense) was \$126,172 and \$67,030 for the years ended June 30, 2017 and 2016, respectively on this debt.

7. Annuities Payable

Helping Up Mission, Inc. currently has three agreements to provide periodic payments to one individual during the remainder of her life in return for a charitable gift to Helping Up Mission, Inc. The aggregate annual estimated payments on the annuity obligations at June 30, 2017 and 2016 are \$47,530 and \$51,832, respectively, based on the IRS life expectancy tables as of June 30, 2014. Helping Up Mission, Inc. reviews the life expectancy tables published by the IRS annually and records the change in the projected liability as a charge to the change in value of the annuity payable. At June 30, 2017 and 2016, the liability based on updated IRS life expectancy tables did not differ materially from what was recorded and no adjustment was made. A portion of the gift represents an obligation by Helping Up Mission, Inc. to make the annual payments (recorded at present value based on the donor's life expectancy and market interest rates, which are currently 4%) and the remainder represents a contribution. At June 30, 2017 and 2016, Helping Up Mission, Inc. has sufficient reserves to fund these obligations.

Interest expense related to annuities payable totaled \$2,048 and \$2,214 for the years ended June 30, 2017 and 2016, respectively.

Future estimated minimum principal payments for the remaining annuities are as follows:

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

7. Annuities Payable (continued)

Years Ending	
June 30,	Amount
2018	\$ 4,477
2019	4,660
2020	4,850
2021	5,048
2022	5,254
Thereafter	23,241
Total	<u>\$ 47,530</u>

8. Program Fees

Program fees consist of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Lodging	\$ 1,447,509	\$ 1,323,558
Food stamps	464,557	486,807
Temporary disability assistance	<u>320,142</u>	<u>418,167</u>
	<u>\$ 2,232,208</u>	<u>\$ 2,228,532</u>

9. Rental Income

A small portion of Helping Up Mission, Inc. and Subsidiaries' office space at 1017 and 1029 E. Baltimore Street is leased to outside tenants under non-cancelable operating leases. The leases have consolidated monthly rental payments of \$6,303. The leases include provisions for automatic one-year renewals unless written notice is provided to the other party ninety days before the renewal date. Rental income totaled \$76,077 and \$69,008 for the years ended June 30, 2017 and 2016, respectively. The cost of the buildings was \$8,434,006 and \$9,448,730 at June 30, 2017 and 2016, respectively and accumulated depreciation totaled \$1,463,933 and \$2,165,890 at June 30, 2017 and 2016, respectively. The portion of the building being rented is diminutive.

10. Impairment Loss

During the year ended June 30, 2017, Helping Up Mission received an appraisal on the building located at 1017 E. Baltimore Street. The appraisal was made for the purpose of potential debt restructuring to appropriately align collateral with the related debt. The impairment loss totaling \$65,799 represents the difference between the carrying value of the building and related improvements and the market value based on the appraisal received in June 2017.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

11. Commitments

Operating Leases

Helping Up Mission, Inc. entered into an operating lease agreement in April of 2015 for various office equipment. The lease has a term of five years and provides for base monthly rentals of \$2,658, with certain provisions for additional amounts due depending on total usage of the associated equipment.

Total payments under this equipment lease for the years ended June 30, 2017 and 2016 were \$75,586 and \$71,427, respectively. These amounts have been included in "equipment lease and maintenance" in the accompanying Consolidated Statements of Functional Expenses.

Helping Up Mission, Inc. has an operating lease agreement for a townhouse in Baltimore City for the "3/4 Housing Program". The program provides for Helping Up Mission, Inc. to lease the townhouse from the landlord and in turn, rent it to program graduates who live independently. This is a 60-month lease, expiring in February 2020. Annual lease payments total \$44,400 in year one, followed by varying annual lease payments based on a lump sum payable at the beginning of each lease year and subsequent monthly payments as determined by the lease agreement. The lease contains an option to renew for a period of up to five years.

Helping Up Mission, Inc. also has an operating lease agreement for another townhouse in Baltimore City for the "3/4 Housing Program". This is a 60-month lease, expiring in April 2020. Annual lease payments total \$34,100 in year one, followed by varying annual lease payments based on a lump sum payable at the beginning of each lease year and subsequent monthly payments as determined by the lease agreement. The lease contains an option to renew for a period of up to five years.

Helping Up Mission, Inc. entered into an operating lease agreement in March 2016 in Baltimore City for a nearby office building for program expansion purposes. This is a 60-month lease, expiring in May 2020. Under the terms of the lease agreement, Helping Up Mission, Inc. received one year of free rent, followed by base monthly rent payments of \$2,800, with escalation provisions at 3% per year thereafter.

Helping Up Mission, Inc. entered into an operating lease agreement in November 2016 for a nearby property to be used as a transportation hub for a women's program. This is a one-year lease and expires in October 2017. Base monthly rent under this lease agreement is \$4,500.

Helping Up Mission, Inc. entered into an operating lease agreement in May 2017 for a nearby delicatessen to be used as a temporary kitchen facility during kitchen renovations on the main campus. The lease is for a period of six months and expires in November 2017. Base monthly rent under the lease agreement is \$3,750.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

11. Commitments (continued)

Operating Leases (continued)

Total payments under these lease arrangements for the years ended June 30, 2017 and 2016 were \$154,525 and \$87,634, respectively, and are included in "occupancy cost" in the accompanying Consolidated Statements of Functional Expenses.

The Organizations recognize rental expense for leases with scheduled rent increases over the life of the lease using the straight line method. The difference between the actual rent payments and rent expense calculated using the straight line method represents deferred rent. The deferred rent liability totaled \$29,159 and \$6,034 at June 30, 2017 and 2016, respectively.

The aggregate minimum future rental payments under operating leases are as follows:

Years Ending June 30,	Amount
2018	\$ 179,778
2019	137,157
2020	95,935
2021	33,656
Total	<u>\$ 446,526</u>

Accumulated Vacation

Employees of Helping Up Mission, Inc. earn a vested right to compensation for unused vacation. Accordingly, Helping Up Mission, Inc. has made an accrual for vacation compensation that employees have earned but not taken. Accrued vacation totaled \$145,459 and \$136,234 at June 30, 2017 and 2016, respectively, and is included in the balance of "accrued expenses" on the Consolidated Statements of Financial Position.

Grant Commitments

In June 2006, Helping Up Mission, Inc. was awarded a conditional promise to give from FHLBank Atlanta, a Federal Home Loan Bank, in the amount of \$500,000. The grant was to be used to support capital costs for the renovations to 1023 East Baltimore Street and provide additional beds for emergency shelter for homeless men in Baltimore City. Helping Up Mission, Inc. met all the requirements under this grant agreement and the grant was recognized as revenue in years prior to June 30, 2017. The grant must be repaid if Helping Up Mission, Inc. is not in compliance with the terms of the application, which includes the use of the building for the services noted above for a period of fifteen years, expiring in 2021.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

11. Commitments (continued)

Grant Commitments (continued)

In December 2006, Helping Up Mission, Inc. was awarded a grant from the State of Maryland, Board of Public Works for an amount not to exceed \$200,000, provided Helping Up Mission, Inc. meets certain matching requirements. The grant was recognized as revenue in full in years prior to June 30, 2017. The grant is to be used for the construction, repair and renovation of 1031 East Baltimore Street. Under the terms of the agreement, Helping Up Mission, Inc. may not sell, lease, exchange or give away any interest in the real or personal property acquired with the grant funds without prior written consent of the Board of Public Works. If the Board of Public Works permits the transfer or disposition, Helping Up Mission, Inc. may be required to repay the State the percentage of the proceeds allocable to the grant.

In August 2007, Helping Up Mission, Inc. was awarded a conditional promise to give from The Harry and Jeanette Weinberg Foundation in the amount of \$1,500,000. The grant is to be used to support capital costs for the renovations to buildings which serve as emergency shelter, transitional housing, and school for homeless men in Baltimore City. All conditions were met and the entire amount of the grant was recognized as revenue in years prior to June 30, 2017. Under the terms of the grant agreement, Helping Up Mission, Inc. must have prior approval from The Harry and Jeanette Weinberg Foundation to sell or transfer ownership of the property through the year 2031. The proceeds received from any sale must be used for the construction or purchase of a replacement property.

In December 2008, Helping Up Mission, Inc. was awarded a conditional promise to give from FHLBank Atlanta, a Federal Home Loan Bank, in the amount of \$1,000,000. The grant was to be used to support capital costs for the renovations to 1029 East Baltimore Street which will house a new chapel, overnight emergency services with beds for 60 men, classrooms and a library for homeless men in Baltimore City. The grant provides for payment in full on the conditions that the Organization complete construction at 1029 E. Baltimore Street and that 100% of ownership units and 75% of the assisted rental units must be occupied. Helping Up Mission, Inc. met all the requirements under this grant agreement and the grant was recognized as revenue in years prior to June 30, 2017. The grant must be repaid if Helping Up Mission, Inc. is not in compliance with the terms of the application, which includes the use of the building for the services noted above for a period of fifteen years, expiring in 2026.

In December 2010, Helping Up Mission, Inc. was awarded another conditional promise to give from FHLBank Atlanta in the amount of \$1,000,000. The grant is to be used to support capital costs for the renovations to 1031 East Baltimore Street. The grant provides for payment in full on the conditions that the Organization complete construction at 1031 E. Baltimore Street and that 100% of ownership units and 75% of the assisted rental units must be occupied. Helping Up Mission, Inc. met all the requirements under this grant agreement and the grant was recognized

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

11. Commitments (continued)

Grant Commitments (continued)

as revenue in years prior to June 30, 2017. The grant must be repaid if Helping Up Mission, Inc. is not in compliance with the terms of the application, which includes the use of the building for the services noted above for a period of fifteen years, expiring in 2028.

In September 2011, House of Freedom, Inc. was awarded a grant from The Department of Housing and Community Development in the amount of \$740,838. The grant was recognized as revenue in full in years prior to June 30, 2017. The grant is to be used for the construction, repair, renovation and capital equipping of 1031 East Baltimore Street. The Organizations must use this building as a shelter, transitional or other housing facility for the homeless, for a period of not less than fifteen years, expiring in 2027. If the properties are sold, transferred, or not used for the specified purpose prior to the year 2027, House of Freedom, Inc. must repay the grant in full.

12. Conditional Promise to Give

In June 2017, Helping Up Mission was awarded a conditional promise to give in the amount of \$15,000,000. The proceeds are to be used to support the construction of a building at 1216 E. Baltimore Street to service women and children in a program that provides rehabilitation services addressing the issues of substance abuse, poverty and homelessness. The pledge is to be paid over a three year period at \$5,000,000 a year starting July 1, 2017. The initial payment is conditional upon Helping Up Mission receiving \$5,000,000 of commitments from other organizations. The condition has not been met as of June 30, 2017, and accordingly, no amounts related to this conditional promise to give have been included in contribution income in the accompanying Statement of Activities for the year ended June 30, 2017 and 2016. The contribution will be recorded as a promise to give once the related condition has been met.

13. Retirement Plan

Helping Up Mission, Inc. sponsors and contributes to an employee SIMPLE IRA plan. Contributions to this Plan totaled \$54,242 and \$46,209 for the years ended June 30, 2017 and 2016, respectively.

14. Board Designated Net Assets

The Board approved the establishment of a Board designated fund during the year ended June 30, 2016. The purpose of the fund is to segregate a portion of unrestricted net assets for future capital needs. Board designated net assets totaled \$600,000 and \$937,256 as of June 30, 2017 and 2016, respectively.

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

15. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following on June 30:

	<u>2017</u>	<u>2016</u>
Art fund	\$ 1,191	\$ 1,528
Books and content	14,812	19,977
Camps	29,136	5,707
Chapel renovations	10,172	11,524
Eye care	2,500	2,500
Foot care	1,192	1,192
Kitchen renovations	1,000,000	1,000,000
Licensing (ETO)	30,000	-
Music fund	188	188
Prescription services	10,000	-
Program retreats	36,938	26,343
Psychiatric services	75,000	-
Spiritual recovery & alumni	10,300	12,250
Stabilization project	7,500	-
Women's center	2,000	-
Total temporarily restricted net assets	<u>\$ 1,230,929</u>	<u>\$ 1,081,209</u>

16. Supplemental Disclosure of Cash Flow Information

Cash paid for interest totaled \$125,650 and \$66,675 for the years ended June 30, 2017 and 2016, respectively.

Non-cash investing and financing activities consisted of the follows for the years ending June 30:

	<u>2017</u>	<u>2016</u>
Cost of property and equipment acquired	\$ 3,577,609	\$ -
Less: proceeds from notes payable	(1,650,000)	-
Less: proceeds from line of credit	(500,000)	-
Net cash outlay for property and equipment	<u>\$ 1,427,609</u>	<u>\$ -</u>

Helping Up Mission, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

17. Subsequent Events

In August 2017, the Board approved an expenditure of not greater than \$2,931,051 to renovate the commercial kitchen at 1023 E. Baltimore Street. The projected sources of funding include income funds from a recent capital campaign and current cash reserves not to exceed \$331,051.

Subsequent to year-end, House of Freedom received a grant from The Maryland Department of Housing and Community Development in the amount not to exceed \$1,400,000 to be used for the rehabilitation of the existing commercial kitchen and dining hall located at 1023 E. Baltimore Street. The Organization must use this building as a shelter, transitional or other housing facility for the homeless, for a period of not less than fifteen years, expiring in 2032. If the properties are sold, transferred, or not used for the specified purpose prior to the year 2032, House of Freedom, Inc. must repay the grant in full.

Subsequent events were evaluated through September 26, 2017, the date the financial statements were available to be issued. There were no additional subsequent events noted for disclosure.