

Laurel Advocacy and Referral Services, Inc.

Financial Statements

For the Years Ended June 30, 2018 and 2017



HERTZBACH
certified public accountants • consultants

Laurel Advocacy and Referral Services, Inc.

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For the Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors
Laurel Advocacy and Referral Services, Inc.
311 Laurel Avenue
Laurel, MD 20707

We have audited the accompanying financial statements of Laurel Advocacy and Referral Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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 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 audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurel Advocacy and Referral Services, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hertzbach & Company, P.A.

Rockville, Maryland
October 15, 2018

Laurel Advocacy and Referral Services, Inc.

Statements of Financial Position
As of June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 230,251	\$ 323,371
Restricted cash	2,918	9,073
Pledges receivable	29,979	43,963
Grants receivable	82,820	39,321
Other receivables	-	333
Inventories	17,060	6,359
Investments	126,476	125,328
Prepaid expenses	13,285	5,357
Total current assets	<u>502,789</u>	<u>553,105</u>
Property and equipment, net	505,940	538,850
Other assets		
Investments	<u>151,333</u>	<u>50,327</u>
Total assets	<u><u>\$ 1,160,062</u></u>	<u><u>\$ 1,142,282</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 1,714	\$ 13,426
Accrued payroll and payroll taxes	27,813	30,332
Current portion of mortgage payable	10,225	9,776
Client funds held in trust	<u>2,918</u>	<u>9,073</u>
Total current liabilities	<u>42,670</u>	<u>62,607</u>
Noncurrent liabilities		
Mortgage payable, less current portion	<u>23,486</u>	<u>40,469</u>
Total liabilities	<u>66,156</u>	<u>103,076</u>
Net assets		
Unrestricted net assets	1,093,226	1,039,206
Temporarily restricted net assets	<u>680</u>	<u>-</u>
Total net assets	<u>1,093,906</u>	<u>1,039,206</u>
Total liabilities and net assets	<u><u>\$ 1,160,062</u></u>	<u><u>\$ 1,142,282</u></u>

See independent auditor's report and notes to financial statements.

Laurel Advocacy and Referral Services, Inc.

Statements of Activities
For the Year Ended June 30, 2018

	Unrestricted	Temporarily restricted	Total
Revenues, gains, and other support			
Special events:			
Revenues	\$ 99,021	\$ -	\$ 99,021
Less: donor benefit costs	(14,188)	-	(14,188)
Net support from special events	84,833	-	84,833
Grants	701,532	-	701,532
Contributions	269,113	4,000	273,113
Client co-payments	19,877	-	19,877
In-kind contributions	228,266	-	228,266
Other income	4,374	-	4,374
Interest income	2,692	-	2,692
Net assets released from restrictions:			
Satisfaction of program requirements	3,320	(3,320)	-
Total revenues, gains, and other support	1,314,007	680	1,314,687
Expenses			
Program services	1,076,400	-	1,076,400
General and administrative	101,164	-	101,164
Fundraising	82,423	-	82,423
Total expenses	1,259,987	-	1,259,987
Change in net assets	54,020	680	54,700
Net assets, beginning of year	1,039,206	-	1,039,206
Net assets, end of year	\$ 1,093,226	\$ 680	\$ 1,093,906

See independent auditor's report and notes to financial statements.

Laurel Advocacy and Referral Services, Inc.

Statements of Activities (Continued)
For the Year Ended June 30, 2017

	Unrestricted	Temporarily restricted	Total
Revenues, gains, and other support			
Special events:			
Revenues	\$ 84,946	\$ -	\$ 84,946
Less: donor benefit costs	(11,600)	-	(11,600)
Net support from special events	73,346	-	73,346
Grants	674,023	-	674,023
Contributions	210,146		210,146
Client co-payments	32,846	-	32,846
In-kind contributions	170,651	-	170,651
Other income	975	-	975
Interest income	1,356	-	1,356
Net assets released from restrictions:			
Satisfaction of program requirements	14,829	(14,829)	-
Total revenues, gains, and other support	1,178,172	(14,829)	1,163,343
Expenses			
Program services	1,048,761	-	1,048,761
General and administrative	72,970	-	72,970
Fundraising	67,416	-	67,416
Total expenses	1,189,147	-	1,189,147
Change in net assets	(10,975)	(14,829)	(25,804)
Net assets, beginning of year	1,050,181	14,829	1,065,010
Net assets, end of year	\$ 1,039,206	\$ -	\$ 1,039,206

See independent auditor's report and notes to financial statements.

Laurel Advocacy and Referral Services, Inc.

Statements of Functional Expenses
For the Year Ended June 30, 2018

	Program Services			Supporting Services			Total Program and Supporting Services
	Emergency Services	Housing	Self-Sufficiency Services	General and Administrative	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 168,849	\$ 119,840	\$ 26,990	\$ 62,229	\$ 66,582	\$ 128,811	\$ 444,490
Assistance	259,650	412,764	14,334	-	-	-	686,748
Office and occupancy	19,746	12,343	3,468	10,114	6,911	17,025	52,582
Professional fees	4,357	5,151	1,578	19,050	1,430	20,480	31,566
Travel	-	4,000	502	1,711	190	1,901	6,403
Events	-	-	-	-	2,227	2,227	2,227
Depreciation	12,264	7,665	1,533	4,906	4,292	9,198	30,660
Interest	780	488	98	312	273	585	1,951
Other	-	-	-	2,842	518	3,360	3,360
	<u>\$ 465,646</u>	<u>\$ 562,251</u>	<u>\$ 48,503</u>	<u>\$ 101,164</u>	<u>\$ 82,423</u>	<u>\$ 183,587</u>	<u>\$ 1,259,987</u>

See independent auditor's report and notes to financial statements.

Laurel Advocacy and Referral Services, Inc.

Statements of Functional Expenses (Continued) For the Year Ended June 30, 2017

	Program Services			Supporting Services			Total Program and Supporting Services
	Emergency Services	Housing	Self-Sufficiency Services	Total Program Services	General and Administrative	Fundraising	
Assistance	\$ 219,179	\$ 395,983	\$ 8,767	\$ 623,929	\$ -	\$ -	\$ 623,929
Salaries and benefits	162,336	150,472	25,795	338,603	38,693	55,889	433,185
Office and Occupancy	18,450	18,961	2,563	39,974	8,605	5,125	53,704
Professional fees	6,688	7,845	413	14,946	19,066	-	34,012
Depreciation	11,300	11,612	1,569	24,481	3,766	3,139	31,386
Transportation and mileage	171	4,562	-	4,733	1,430	159	6,322
Interest	967	994	134	2,095	322	269	2,686
Events	-	-	-	-	-	2,519	2,519
Other	-	-	-	-	1,088	316	1,404
	<u>\$ 419,091</u>	<u>\$ 590,429</u>	<u>\$ 39,241</u>	<u>\$ 1,048,761</u>	<u>\$ 72,970</u>	<u>\$ 67,416</u>	<u>\$ 1,189,147</u>

See independent auditor's report and notes to financial statements.

Laurel Advocacy and Referral Services, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 54,700	(25,804)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	30,660	31,386
Donated stock	(5,032)	-
Change in operating assets:		
Pledges receivable	13,984	(14,305)
Grants receivable	(43,499)	26,052
Other receivables	333	390
Inventories	(10,701)	3,880
Prepaid expenses	(7,928)	22,673
Change in liabilities:		
Accounts payable	(11,712)	12,637
Accrued payroll and payroll taxes	(2,519)	4,557
Net cash and cash equivalents provided by operating activities	<u>18,286</u>	<u>61,466</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(20,950)
Purchases of investments	(226,188)	(180,795)
Proceeds from sale of investments	131,316	5,140
Net cash and cash equivalents used in investing activities	<u>(94,872)</u>	<u>(196,605)</u>
Cash flows from financing activities		
Principal payments on mortgage payable	(16,534)	(15,798)
Net cash and cash equivalents used in financing activities	<u>(16,534)</u>	<u>(15,798)</u>
Net change in cash and cash equivalents	(93,120)	(150,937)
Cash and cash equivalents, beginning of year	<u>323,371</u>	<u>474,308</u>
Cash and cash equivalents, end of year	<u>\$ 230,251</u>	<u>\$ 323,371</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,951</u>	<u>\$ 2,686</u>

See independent auditor's report and notes to financial statements.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

1) Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Laurel Advocacy and Referral Services, Inc.'s (the "Organization" and "LARS") mission is to enable homeless and low-income people in Laurel, Maryland who are in crisis to achieve stability and long-term self-sufficiency. Its vision is a community that treats all people with dignity and helps everyone meet their basic needs.

The Organization's program areas are:

Emergency Services – The Organization provides short-term financial assistance, support services, and referrals to low-income and homeless individuals and families in crisis. Funding comes from a variety of public and private grants, as well as other general contributions. Services include short-term case management, eviction prevention and rental assistance, utility assistance, referrals to long-term services, assistance in obtaining identification cards and birth certificates, clothing and furniture vouchers, employment assistance, holiday and back-to-school programs, and additional homeless supportive services. In addition, the Organization also operates a food pantry.

Permanent Supportive Housing – LARS receives a Continuum of Care (COC) grant through U.S. Department of Housing and Urban Development (HUD) to operate a Permanent Supportive Housing Program that provides subsidized housing and supportive services to 22 chronically homeless, disabled individuals and families. This program is not time-limited. Two LARS case managers conduct weekly home visits with all participants, who reside in apartments leased by LARS throughout the Laurel community. Participants live independently with support as needed from LARS, including life skills classes, individual savings accounts, and assistance with obtaining treatment for substance abuse, health or mental health problems. LARS works closely with the Prince George's County Department of Social Services to prioritize placement of homeless individuals/families into our program according to their level of vulnerability. LARS also receives COC funding through HUD to provide transitional housing for three families. This program is time-limited, with a maximum duration of 24 months. During the year ending June 30, 2017, LARS also received COC funding through HUD to provide transitional housing for three families. This program ended as of June 30, 2017.

Self-Sufficiency Services – Through a HUD grant, the Organization helps to stabilize and motivate participants to work closely with a LARS case manager on a longer-term basis (18 to 24 months) to maintain permanent housing, improve financial habits, gain employment, and remove other barriers to self-sufficiency. The evidence-based program uses a highly successful "Mobility Mentoring" framework designed by EMPATH of Boston, MA. Mobility Mentoring-inspired programs are described by EMPATH as "metric-based, mentor-led, incentivized programs that lead families across the economic divide." The primary focus of Mobility Mentoring is coaching the participant in personal problem-solving, skill-building, and persistence to attain the long-term goals that support economic independence. The mentor's role is to help participants carve enough time out of their days to begin to take the steps necessary to change their lives.

Basis of Accounting

The Organization's financial statements are prepared on the accrual method of accounting which recognizes income when it is earned and expenses when they are incurred.

See independent auditor's report.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets that result from contributions and grants whose use is limited by donor-imposed stipulations that either expire by passage of time or the occurrence of a specific event. When conditions of the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets.

Permanently Restricted Net Assets

Net assets that are subject to donor-imposed restrictions that require the principal balance to be kept in perpetuity while permitting the Organization to use or expend part or all of the income derived from the assets. These restrictions neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization did not have any permanently restricted net assets as of June 30, 2018 and 2017.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenue and expenses. Accordingly, actual results could differ from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds available for operating purpose with an original maturity of three months or less.

Restricted Cash

The Organization collects payments from clients each month in an effort to assist in helping them build up savings while they are enrolled in the program. These funds are required to be held in separate accounts and are restricted for clients only. Once the clients have completed the program, they may withdraw their savings.

See independent auditor's report.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Pledges Receivable

Pledges receivable represent unconditional promises to give which are recognized as revenue or gains in the period acknowledged. Conditional promises to give are only recognized when the conditions on which they depend are substantially met. Unconditional promises to give are carried at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Pledges receivable are deemed fully collectible by management. As of June 30, 2018 and 2017, pledges receivable are all due within one year.

Grants Receivable

Grants receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Grants receivable are written off when deemed uncollectible. Recoveries of grants receivable previously written off are recorded when received. As of June 30, 2018 and 2017, management has determined that no allowance for doubtful accounts is necessary based upon the status and collectability of grants receivable.

Inventories

Inventories are stated at the lower of cost or market.

Property and Equipment

Property and equipment are recorded at cost, or if donated, the assets are capitalized at the estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 30 years, with no salvage value. Leasehold improvements are recorded at cost and are amortized on a straight-line basis over the lesser of the remaining life of the lease or estimated useful lives of the assets.

The Organization capitalizes all expenditures for property and equipment over \$500. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Expenditures for major repairs and improvements are capitalized, expenditures for minor repairs and maintenance costs are expensed when incurred.

Impairment of Long-lived Assets

The Organization accounts for the valuation of long-lived assets by reviewing for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Management has determined there to be no impairment as of June 30, 2018 and 2017.

See independent auditor's report.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Investments

The Organization's investments are comprised of certificates of deposit. Certificates of deposit with original maturities of three months and remaining maturities of less than one year are classified as current assets. Certificates of deposit with remaining maturities greater than one year are classified as noncurrent assets. Interest income is measured as earned on the accrual basis.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted contributions whose restrictions are satisfied in the same restriction period are shown as unrestricted contributions. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction.

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost reimbursement grants or when a unit of service is provided for performance grants. Expenditures under federal awards are subject to review by the grantor, which may result in disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

In-Kind Contributions

Donated goods and services are reported at fair value in the financial statements when those items are received if they (1) create or enhance non-financial assets or (2) require any specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. During the years ended June 30, 2018 and 2017, the Organization received donated food and other goods worth \$228,266 and \$170,651, respectively.

A substantial number of volunteers have donated significant amounts of their time in the Organization's programs and its fundraising campaigns. The value of these donated services does not meet the criteria for recognition and, accordingly, is not recognized in the accompanying financial statements.

Functional Expenses

The costs of providing the various programs have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Expenses are charged to program and supporting services on the basis of direct charges, square footage, and periodic time studies. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

Reclassification

Certain amounts in 2017 have been reclassified to conform to the 2018 presentation. There was no effect on 2017 net assets as a result of these reclassifications.

See independent auditor's report.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) as an organization, which is not a private foundation. The Organization is generally exempt from federal and state income taxes. Unrelated business income may be subject to federal and state income taxes. Management believes that it has no material uncertain tax positions that would require recognition under the accounting codification guidance.

2) Property and Equipment

The Organization held the following property and equipment as of June 30, 2018 and 2017:

	2018	2017
Land and building	\$ 589,714	\$ 589,714
Furnitures, fixtures, and equipment	135,578	137,828
Leasehold improvements	33,465	33,465
	758,757	761,007
Less: accumulated depreciation	(252,817)	(222,157)
Property and equipment, net	\$ 505,940	\$ 538,850

During the years ended June 30, 2018 and 2017, depreciation and amortization expense was \$30,660 and \$31,386, respectively.

3) Defined Contribution Plan

The Organization established a Safe-Harbor contributory plan qualified under Section 401(k) of the Internal Revenue Code in January 2010. The Plan covers all employees of the Organization who are at least 18 years of age and have completed three (3) months of service. A participant can contribute a percentage of his/her compensation, which is immediately vested. The Organization makes a Safe Harbor matching contribution of 100% of the participant's elective deferral contributions up to 4% of compensation plus 50% of their elective deferral contributions over 4% up to 6% of compensation. The participant's share of the Organization's contributions is immediately vested. Matching contributions made to this 401(k) plan were \$10,504 and \$9,310 for the years ended June 30, 2018 and 2017, respectively.

4) Concentration of Credit Risk

The Organization maintains its cash balances in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses on cash accounts and believes it is not exposed to any significant credit risk on cash.

See independent auditor's report.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

5) Commitments and Contingencies

Operating Leases

The Organization leases apartments for housing clients under various non-cancelable operating leases which expire at various dates through February 2020. Total rent expense for the years ended June 30, 2018 and 2017 was \$391,081 and \$390,653, respectively. The Organization also has leases for office equipment which expires at various dates through August 2023.

Future minimum lease payments under lease agreements are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2019	\$ 103,810
2020	17,016
2021	1,557
2022	1,557
2023	1,557
Thereafter	<u>130</u>
	<u>\$ 125,627</u>

6) Mortgage Payable

The Organization has a mortgage note payable with a bank bearing fixed interest at 4.5% and secured by the land and building. The terms of the loan provide for monthly payments of \$1,040, which include principal and interest, through February 2023. During the years ended June 30, 2018 and 2017, interest expense on the mortgage was \$1,951 and \$2,686, respectively.

Future minimum principal payments are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2019	\$ 10,225
2020	10,695
2021	11,186
2022	<u>1,605</u>
	<u>\$ 33,711</u>

See independent auditor's report.

Laurel Advocacy and Referral Services, Inc.

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

7) Line of Credit

The Organization has a \$100,000 revolving line of credit with a bank. The line of credit bears interest at the bank's prime rate plus 1% and is secured by the Organization's land and building. Monthly payments of interest only are required until March 3, 2018 when the outstanding principal is due. There is no balance outstanding on the line of credit as of June 30, 2018 and 2017.

8) Subsequent Events

Management has evaluated subsequent events and transactions subsequent to the statement of financial position date for potential recognition or disclosure through October 15, 2018, the date the financial statements were available to be issued. There were no events that required recognition or disclosure in the financial statements.

See independent auditor's report.