

**JACOB'S HEART CHILDREN'S CANCER SUPPORT
SERVICES**

Financial Report

December 31, 2018

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Jacob's Heart Children's Cancer
Support Services
Watsonville, California

We have audited the accompanying financial statements of Jacob's Heart Children's Cancer Support Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jacob's Heart Children's Cancer Support Services as of December 31, 2018, 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.

Hutchinson and Bloodgood LLP

August 7, 2019

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	979,302
Accounts receivable		6,341
Prepaid expenses		3,004
Beneficial interest in assets held by Community Foundations		130,266
Other current assets		<u>6,965</u>
Total current assets		<u>1,125,878</u>

PROPERTY AND EQUIPMENT, at cost

Furniture and equipment		54,975
Automobiles		<u>112,949</u>
		167,924
Less accumulated depreciation		<u>71,911</u>
		<u>96,013</u>
	\$	<u>1,221,891</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	5,098
Accrued expenses		<u>6,885</u>
Total current liabilities		<u>11,983</u>

NET ASSETS

Without donor restrictions		1,179,908
With donor restrictions		<u>30,000</u>
		<u>1,209,908</u>
	\$	<u>1,221,891</u>

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Contributions	\$ 1,390,138	\$ 60,000	\$ 1,450,138
Other revenue	20,674	--	20,674
Net investment loss	(9,896)	--	(9,896)
Gain on sale of property and equipment	593	--	593
Net assets released from restrictions	160,000	(160,000)	--
Total revenue	<u>1,561,509</u>	<u>(100,000)</u>	<u>1,461,509</u>
EXPENSES			
Program services	1,165,635	--	1,165,635
Management and general	139,646	--	139,646
Fundraising	117,478	--	117,478
Total expenses	<u>1,422,759</u>	<u>--</u>	<u>1,422,759</u>
Increase (decrease) in net assets	<u>138,750</u>	<u>(100,000)</u>	<u>38,750</u>
Net assets, beginning, as previously stated	961,681	154,477	1,116,158
Prior period adjustment (Note 9)	<u>79,477</u>	<u>(24,477)</u>	<u>55,000</u>
Net assets, beginning, as restated	<u>1,041,158</u>	<u>130,000</u>	<u>1,171,158</u>
Net assets, ending	<u>\$ 1,179,908</u>	<u>\$ 30,000</u>	<u>\$ 1,209,908</u>

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services						Total
	Practical and Financials	Emotional and Psychosocial	Community Awareness and Education	Total Program Services	Management and General	Fundraising	
EXPENSES							
Advertising and Marketing	\$ 681	\$ 5,001	\$ 4,301	\$ 9,983	\$ 700	\$ 2,250	\$ 12,933
Computers, Internet and Technology	2,307	3,395	1,040	6,742	2,087	2,580	11,409
Counseling Service Fees	--	250	--	250	--	--	250
Depreciation	--	--	--	--	26,730	--	26,730
Events Supplies and Expenses	852	68,811	1,371	71,034	368	857	72,259
Family Financial Assistance	381,072	12,483	--	393,555	--	--	393,555
Gifts and Meals	360	5,015	50	5,425	140	1,853	7,418
Insurance	6,739	9,865	2,457	19,061	2,157	2,184	23,402
Memberships and Subscriptions	326	601	2,282	3,209	536	457	4,202
Payroll and Payroll Expenses							
Salary and Wages	145,024	237,456	63,062	445,542	35,508	38,261	519,311
Payroll Taxes	12,991	20,743	5,494	39,228	3,094	3,336	45,658
Benefits	3,040	5,248	1,500	9,788	945	1,233	11,966
Payroll Service Fees	604	934	251	1,789	143	152	2,084
Total Payroll Expense	161,659	264,381	70,307	496,347	39,690	42,982	579,019
Postage and Delivery	2,467	3,694	587	6,748	897	4,561	12,206
Printing and Reproduction	5,384	3,227	1,250	9,861	1,328	3,529	14,718
Professional Development	4,704	7,622	2,266	14,592	1,822	1,630	18,044
Professional Services	3,018	2,904	1,164	7,086	48,985	9,074	65,145
Program Support Services	750	14,252	16,761	31,763	250	35,923	67,936
Supplies	4,934	12,031	3,298	20,263	6,620	2,782	29,665
Facility Expenses	17,681	24,409	5,893	47,983	6,476	5,893	60,352
Repairs and Maintenance	2,354	960	490	3,804	460	240	4,504
Travel	911	1,036	605	2,552	259	377	3,188
Transportation Expense	14,151	771	455	15,377	141	306	15,824
	<u>\$ 610,350</u>	<u>\$ 440,708</u>	<u>\$ 114,577</u>	<u>\$ 1,165,635</u>	<u>\$ 139,646</u>	<u>\$ 117,478</u>	<u>\$ 1,422,759</u>

The notes to financial statements are an integral part of this statement.

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 38,750
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	26,730
Change in beneficial interest in assets held by Community Foundations	12,308
Gain on sale of property and equipment	(593)
(Increase) decrease in:	
Accounts receivable	51,659
Prepaid expenses	2,169
Other current assets	8,972
Increase (decrease) in:	
Accounts payable	4,927
Accrued expenses	2,170
Net cash provided by operating activities	<u>147,092</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds on sale of property and equipment	1,520
Cash paid to purchase property and equipment	<u>(55,265)</u>
Net cash used by investing activities	<u>(53,745)</u>
Net increase in cash and cash equivalents	93,347
Cash and Cash Equivalents, beginning	<u>885,955</u>
Cash and Cash Equivalents, ending	<u>\$ 979,302</u>

The notes to financial statements are an integral part of this statement.

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Jacob's Heart Children's Cancer Support Services (the Organization) exists to improve the quality of life for children with cancer and support their families in the challenges they face. Since 1998, they have served hundreds of families who have heard the devastating words, "your child has cancer." Through the years the Organization has celebrated remission for hundreds of children and has grieved with families at the loss of a precious child.

Through it all, they remain steadfast in their mission; their reason for existence, an unwavering dedication to providing support to parents and families of children with cancer in Monterey, Santa Cruz, San Benito and South Santa Clara Counties.

Accounting Policies: The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation: The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents: For the purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Use of Estimates: Preparing the Organization's 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable: Accounts receivable are stated at face value since probable uncollectible amounts are immaterial.

Functional Allocation of Expenses: Directly identifiable expenses are charged to programs and supporting services. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are contract services, compensation and benefits, which are allocated on the basis of estimates of time and effort. The remaining unallocated expenses (which comprise about 5% of monthly expenses) are allocated equally among the functional classes.

Beneficial Interests in Assets Held by Community Foundations: In 2015 the Organization's Board of Directors opened a Stewardship Fund for the future of the Organization at the Community Foundation for Monterey County and one at the Community Foundation of Santa Cruz County. The goal is to build a reserve equal to one year's operating budget. This will ensure that services to families will remain uninterrupted during challenging economic times.

Property and Equipment: All acquisitions of property and equipment in excess of \$1,000 are capitalized while expenditures for repairs and maintenance that do not improve or extend the useful lives of respective assets are expensed when incurred. Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3-7 years.

Contributions: Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Advertising Costs: Advertising costs are expensed when incurred. Total advertising costs for the year ended December 31, 2018 were \$12,933.

Income Taxes: The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncement: On August 18, 2016, Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

The changes have the following effect on net assets as of December 31, 2017, before the prior period adjustment discussed in Note 9:

Net Assets	As Originally Presented	After Adoption of ASU 2016-14 and reclassifications
Unrestricted	\$ 961,681	\$ --
Temporarily restricted	75,000	--
Permanently restricted	79,477	--
Without donor restrictions	--	961,681
With donor restrictions	--	154,477
	<u>\$ 1,116,158</u>	<u>\$ 1,116,158</u>

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

Financial assets at year end:	
Cash and cash equivalents	\$ 979,302
Accounts receivable, net	6,341
Beneficial interest in assets held by Community Foundations	<u>130,266</u>
 Total financial assets	 1,115,909
 Less amounts not available to be used within one year:	
Subject to appropriation and satisfaction of donor restrictions	<u>30,000</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 1,085,909</u>

The Organization regularly monitors liquidity required to meet its operating needs while also striving to maximize the investment of its available funds. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be met.

As part of the Organization's liquidity management plan the Board of Directors opened two Stewardship Funds to build reserves for operations. At December 31, 2018, the operating reserve was \$130,266. This reserve may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

NOTE 3. CONCENTRATION OF CREDIT RISK FOR CASH

The Organization maintains cash balances at various institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 4. FAIR VALUE

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are briefly described below:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

- Beneficial interest in assets held by Community Foundations: Funds are invested for long-term growth, both in equities and fixed income investments, which are valued at the net asset value ("NAV") of shares held by the Foundation at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by Community Foundations	\$ --	\$ 130,266	\$ --	\$ 130,266

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 5. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATIONS

At December 31, 2018 the Organization had two stewardship accounts with the Community Foundation for Monterey County and the Community Foundation of Santa Cruz County. The Foundations hold and invest the funds on behalf of the Organization, with the long-term objectives of safeguarding principal, increasing the principal through long-term total return and generating income for charitable distributions.

The Foundations have no variance power over the funds. In the event the Foundation ceases to exist the funds are required to be returned to the Organization. In the event the Organization ceases to exist the funds will be used for charitable purposes as designated by the Foundation.

The following table presents a rollforward of activity for beneficial interest in assets held by Community Foundations for the year ended December 31, 2018:

Balance as of January 1, 2018	\$	142,574
Interest and dividends		2,035
Unrealized gain (loss) in asset value		(12,233)
Fees		<u>(2,110)</u>
Balance as of December 31, 2018	\$	<u>130,266</u>

NOTE 6. IN KIND INCOME AND EXPENSES

The Organization was the beneficiary of donated office space valued at \$48,000 for the year. The Organization also received donations of gift cards for gasoline and food, which in turn, are donated to clients for family support and financial assistance.

NOTE 7. DONATED SERVICES

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skill, are performed by people with those skills and would otherwise be purchased by the Organization.

Numerous volunteers have donated significant amounts of time, in addition to community donations of goods to the Organization's program services throughout the year, that are not recognized as contributions. Although no amounts have been reflected in the financial statements, management estimates the fair value of those goods and services to be \$151,690 for the year ended December 31, 2018.

JACOB'S HEART CHILDREN'S CANCER SUPPORT SERVICES

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2018

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

The Organization receives grants and donations that are donor restricted.

For the year ended December 31, 2018, activity in the net assets with donor restrictions was as follows:

	<u>12/31/2017</u>	<u>Balance Additions</u>	<u>Satisfied</u>	<u>12/31/2018</u>
Hospice Giving Foundation	\$ 30,000	\$ 60,000	\$ 60,000	\$ 30,000
Monterey Peninsula Foundation	60,000	--	60,000	--
Community Fd. Santa Cruz	15,000	--	15,000	--
NVIDIA	10,000	--	10,000	--
Nicholson Family Foundation	15,000	--	15,000	--
	<u>\$ 130,000</u>	<u>\$ 60,000</u>	<u>\$ 160,000</u>	<u>\$ 30,000</u>

NOTE 9. PRIOR PERIOD ADJUSTMENT

The Organization receives grants and pledges which may be restricted by time, if not restricted by function. The full amount of these grants and pledges should be reported as increases in net assets in the period received. During 2018, the Organization determined there were two multi-year grants that were not properly recorded in the prior year in the amount of \$55,000. Accordingly, the beginning net assets have been restated to correct this error.

NOTE 10. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2018 financial statements for subsequent events through August 7, 2019, the date of issuance of the financial statements. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.