

HiTOPS, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEARS ENDED JUNE 30, 2015 AND 2014

HiTOPS, INC.

YEARS ENDED JUNE 30, 2015 AND 2014

I N D E X

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3-4
Statements of Activities	5-6
Statements of Functional Expenses	7-8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-26
Supplementary Information:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Schedule of Expenditures of State Awards	29
Schedules of Costs	30-31
Schedule of Findings and Responses	32



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
HiTOPS, Inc.
Princeton, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of HiTOPS, INC. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 previously present fairly, in all material respects, the financial position of HiTOPS, Inc. as of June 30, 2015 and 2014, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards and schedules of costs on pages 29 to 31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016, on our consideration of HiTOPS, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HiTOPS, Inc.'s internal control over financial reporting and compliance.

Klatzkin & Company, LLP

KLATZKIN & COMPANY_{LLP}

Hamilton, New Jersey
January 21, 2016

HiTOPS, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2015</u>	<u>2014</u>
ASSETS		
<u>Current Assets</u>		
Cash and Cash Equivalents.....	\$ 51,968	\$ 24,257
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$-0- and \$-0-).....	12,515	15,218
Patient Receivables (Net of Allowance for Doubtful Accounts of \$-0- and \$6,714).....	-	1,185
Contribution Receivable - Charitable Trust.....	19,606	18,652
Promises to Give.....	-	10,000
Government Receivable.....	-	13,230
Prepaid Expenses.....	<u>169</u>	<u>4,794</u>
Total Current Assets.....	<u>84,258</u>	<u>87,336</u>
Property and Equipment Net of Accumulated		
Depreciation of \$729,857 and \$686,095.....	<u>344,903</u>	<u>388,665</u>
<u>Other Assets</u>		
Investments - Restricted.....	1,258,178	1,315,206
Contribution Receivable - Charitable Trust.....	85,820	105,427
Deferred Loan Fees at Cost, Less Accumulated Amortization of \$3,003 and \$2,611.....	<u>4,831</u>	<u>5,223</u>
Total Other Assets.....	<u>1,348,829</u>	<u>1,425,856</u>
TOTAL ASSETS.....	<u>\$ 1,777,990</u>	<u>\$ 1,901,857</u>

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

HiTOPS, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2015</u>	<u>2014</u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses.....	\$ 83,786	\$ 68,884
Capital Lease Obligation, Current Portion.....	299	3,409
Current Maturities of Long Term Debt.....	60,934	75,422
Deferred Revenue.....	77,792	48,432
Refundable Advance.....	<u>26,357</u>	<u>-</u>
Total Current Liabilities.....	<u>249,168</u>	<u>196,147</u>
<u>Long Term Liabilities</u>		
Capital Lease Obligation, Net of Current Portion.....	-	299
Long Term Debt, Net of Current Maturities.....	<u>361,316</u>	<u>387,477</u>
Total Long Term Liabilities.....	<u>361,316</u>	<u>387,776</u>
Total Liabilities.....	<u>610,484</u>	<u>583,923</u>
<u>Net Assets</u>		
Unrestricted (Deficit).....	(128,940)	(232,227)
Temporarily Restricted.....	127,599	381,314
Permanently Restricted.....	<u>1,168,847</u>	<u>1,168,847</u>
Total Net Assets.....	<u>1,167,506</u>	<u>1,317,934</u>
TOTAL LIABILITIES AND NET ASSETS.....	<u>\$ 1,777,990</u>	<u>\$ 1,901,857</u>

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

HiTOPS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>				
Education Fees, Services and and Government Grants.....	\$ 376,595	\$ -	\$ -	\$ 376,595
Clinical Fees and Contracted Services.....	23,502	-	-	23,502
Contributions.....	133,429	-	-	133,429
General Operating and Foundation Grants.....	39,715	82,900	-	122,615
Community Event, Net of Direct Costs of \$108,439.....	107,601	-	-	107,601
Miscellaneous Income.....	1,257	-	-	1,257
Investment Income (Loss).....	80	(10,028)	-	(9,948)
Net Assets Released from Restrictions.....	<u>164,632</u>	<u>(164,632)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues.....	<u>846,811</u>	<u>(91,760)</u>	<u>-</u>	<u>755,051</u>
<u>Expenses</u>				
Program Services:				
Human Services.....	630,063	-	-	630,063
Supporting Services:				
Management and General.....	75,413	-	-	75,413
Fundraising Expense.....	<u>200,003</u>	<u>-</u>	<u>-</u>	<u>200,003</u>
Total Expenses.....	<u>905,479</u>	<u>-</u>	<u>-</u>	<u>905,479</u>
Change in Net Assets.....	(58,668)	(91,760)	-	(150,428)
Net Assets (Deficit), Beginning of Year.....	(232,227)	381,314	1,168,847	1,317,934
Transfer of Net Assets.....	<u>161,955</u>	<u>(161,955)</u>	<u>-</u>	<u>-</u>
Net Assets (Deficit), End of Year.....	<u>\$ (128,940)</u>	<u>\$ 127,599</u>	<u>\$ 1,168,847</u>	<u>\$ 1,167,506</u>

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

HiTOPS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>				
Education Fees, Services and and Government Grants.....	\$ 419,258	\$ -	\$ -	\$ 419,258
Clinical Fees and Contracted Services.....	73,673	-	-	73,673
Contributions.....	123,530	13,000	-	136,530
General Operating and Foundation Grants.....	61,372	98,505	-	159,877
Community Event, Net of Direct Costs of \$119,421.....	139,551	-	-	139,551
Miscellaneous Income.....	19,077	-	-	19,077
Investment Income.....	122	161,843	-	161,965
Net Assets Released from Restrictions.....	<u>185,170</u>	<u>(185,170)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues.....	<u>1,021,753</u>	<u>88,178</u>	<u>-</u>	<u>1,109,931</u>
<u>Expenses</u>				
Program Services:				
Human Services.....	699,810	-	-	699,810
Supporting Services:				
Management and General.....	81,932	-	-	81,932
Fundraising Expense.....	<u>190,706</u>	<u>-</u>	<u>-</u>	<u>190,706</u>
Total Expenses.....	<u>972,448</u>	<u>-</u>	<u>-</u>	<u>972,448</u>
Change in Net Assets.....	49,305	88,178	-	137,483
Net Assets (Deficit), Beginning of Year.....	<u>(281,532)</u>	<u>293,136</u>	<u>1,168,847</u>	<u>1,180,451</u>
Net Assets (Deficit), End of Year.....	<u>\$ (232,227)</u>	<u>\$ 381,314</u>	<u>\$ 1,168,847</u>	<u>\$ 1,317,934</u>

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

HiTOPS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2015 Total</u>
<u>Personnel</u>				
Salaries.....	\$ 383,570	\$ 22,900	\$ 166,023	\$ 572,493
Payroll Taxes.....	31,882	1,903	13,800	47,585
Employee Benefits.....	<u>24,730</u>	<u>353</u>	<u>10,246</u>	<u>35,329</u>
Total Personnel.....	<u>440,182</u>	<u>25,156</u>	<u>190,069</u>	<u>655,407</u>
<u>Operating Expenses</u>				
Advertising.....	237	33	1,699	1,969
Bank Fees.....	1,027	578	716	2,321
Board.....	-	4,115	-	4,115
Consultants.....	11,000	4,412	-	15,412
Copier.....	6,995	1,749	-	8,744
Depreciation and Amortization.....	35,323	8,831	-	44,154
Food and Facilities.....	1,873	1,673	876	4,422
Insurance.....	18,304	4,576	-	22,880
Interest.....	11,348	2,837	-	14,185
Laboratory.....	2,953	-	-	2,953
Licenses and Fees.....	733	-	-	733
Medical Supplies.....	11,834	-	-	11,834
Memberships and Subscriptions.....	730	289	327	1,346
Office Supplies and Other.....	10,667	2,667	-	13,334
Payroll Service.....	3,813	953	-	4,766
Postage and Delivery.....	1,163	156	485	1,804
Printing.....	5,535	1,384	-	6,919
Professional Fees.....	11,722	1,944	5,434	19,100
Program Material.....	120	-	-	120
Property Taxes.....	133	28	78	239
Repairs and Maintenance.....	34,001	8,500	-	42,501
Staff Development.....	69	-	35	104
Telephone/DSL.....	6,425	1,606	-	8,031
Travel.....	6,390	2,054	284	8,728
Utilities.....	<u>7,486</u>	<u>1,872</u>	<u>-</u>	<u>9,358</u>
Total Operating Expenses.....	<u>189,881</u>	<u>50,257</u>	<u>9,934</u>	<u>250,072</u>
Total Expenses.....	<u>\$ 630,063</u>	<u>\$ 75,413</u>	<u>\$ 200,003</u>	<u>\$ 905,479</u>

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

HiTOPS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2014 Total</u>
<u>Personnel</u>				
Salaries.....	\$ 443,654	\$ 24,995	\$ 156,216	\$ 624,865
Payroll Taxes.....	35,964	2,026	12,663	50,653
Employee Benefits.....	22,754	641	8,653	32,048
Total Personnel.....	<u>502,372</u>	<u>27,662</u>	<u>177,532</u>	<u>707,566</u>
<u>Operating Expenses</u>				
Advertising.....	2,975	-	101	3,076
Bank Fees.....	1,259	151	182	1,592
Bad Debts.....	5,307	-	-	5,307
Board.....	-	472	-	472
Consultants.....	18,300	4,006	-	22,306
Copier.....	5,414	1,353	-	6,767
Depreciation and Amortization.....	39,176	9,794	-	48,970
Food and Facilities.....	1,463	966	1,923	4,352
Insurance.....	15,132	3,783	-	18,915
Interest.....	6,841	16,546	3,192	26,579
Laboratory.....	5,823	-	-	5,823
Licenses and Fees.....	400	-	-	400
Medical Supplies.....	19,304	-	-	19,304
Memberships and Subscriptions.....	772	340	1,473	2,585
Office Supplies and Other.....	6,188	1,547	-	7,735
Parent Workshops.....	81	-	-	81
Payroll Service.....	3,594	899	-	4,493
Postage and Delivery.....	850	338	997	2,185
Printing.....	6,104	1,526	-	7,630
Professional Fees.....	11,623	1,822	5,180	18,625
Program Material.....	1,046	-	-	1,046
Repairs and Maintenance.....	24,786	6,196	-	30,982
Staff Development.....	-	35	-	35
Telephone/DSL.....	5,668	1,417	-	7,085
Travel.....	6,893	969	126	7,988
Utilities.....	8,439	2,110	-	10,549
Total Operating Expenses.....	<u>197,438</u>	<u>54,270</u>	<u>13,174</u>	<u>264,882</u>
Total Expenses.....	<u>\$ 699,810</u>	<u>\$ 81,932</u>	<u>\$ 190,706</u>	<u>\$ 972,448</u>

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

HiTOPS, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	<u>2015</u>	<u>2014</u>
Increase (Decrease) in Cash and Cash Equivalents:		
Cash Flows from Operating Activities:		
Cash Received from Grants and Donors.....	\$ 871,646	\$ 868,493
Cash Paid to Suppliers and Employees.....	(834,266)	(899,272)
Other Cash Receipts.....	1,257	19,077
Interest and Dividend Income.....	80	121
Interest Paid.....	(14,185)	(26,579)
Income Taxes Paid.....	-	-
	<u>24,532</u>	<u>(38,160)</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>24,532</u>	<u>(38,160)</u>
Cash Flows from Investing Activities:		
Purchase of Property and Equipment.....	-	(17,598)
Proceeds from Sale of Investments.....	47,236	128,643
	<u>47,236</u>	<u>111,045</u>
Net Cash Provided by (Used in) Investing Activities.....	<u>47,236</u>	<u>111,045</u>
Cash Flows from Financing Activities:		
Principal Payments on Capital Lease.....	(3,408)	(3,094)
Principal Payments on Long Term Debt.....	(40,649)	(66,042)
	<u>(44,057)</u>	<u>(69,136)</u>
Net Cash Provided by (Used in) Financing Activities.....	<u>(44,057)</u>	<u>(69,136)</u>
Net Increase in Cash and Cash Equivalents.....	27,711	3,749
Cash and Cash Equivalents at Beginning of Year.....	<u>24,257</u>	<u>20,508</u>
Cash and Cash Equivalents at End of Year.....	<u>\$ 51,968</u>	<u>\$ 24,257</u>

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

HiTOPS, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	<u>2015</u>	<u>2014</u>
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Change in Net Assets.....	\$ (150,428)	\$ 137,483
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization.....	44,154	48,970
Net Realized and Unrealized (Gains) Losses.....	93,411	(27,611)
Provision for Bad Debts.....	-	5,307
Reinvested Dividends in Investments.....	(83,619)	(134,876)
(Increase) Decrease in Operating Assets:		
Accounts Receivable.....	2,703	(5,760)
Restricted Cash.....	-	6,123
Contribution Receivable - Charitable Trust.....	18,653	17,744
Promises to Give.....	10,000	(9,000)
Government Receivable.....	13,230	(11,140)
Patient Receivables.....	1,185	(4,382)
Prepaid Expenses.....	4,625	(372)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses.....	14,902	(6,665)
Deferred Revenue.....	29,359	(53,981)
Refundable Advance.....	<u>26,357</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>\$ 24,532</u>	<u>\$ (38,160)</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Property and Equipment Retired from Service:		
Cost.....	\$ -	\$ 34,375
Accumulated Depreciation.....	<u>-</u>	<u>(34,375)</u>
Net Book Value.....	<u>\$ -</u>	<u>\$ -</u>

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

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies

Operations and Geographic Concentrations:

HiTOPS, Inc. (Organization), established in 1996, is a New Jersey nonprofit organization whose mission is to promote adolescent health and well-being. The Organization addresses these key issues by (1) offering comprehensive health education programs for adolescents, teachers and parents, (2) providing primary reproductive healthcare in a “teen-friendly” clinic, and (3) providing training to local, regional, state, and national organizations serving the holistic health needs of adolescents. The Organization offers its services primarily in Mercer County and surrounding areas.

Basis of Financial Statement Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HiTOPS, Inc. and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of HiTOPS, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restriction.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by HiTOPS, Inc.

Cash and Cash Equivalents:

For the purposes of the Statements of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less, except bank certificates of deposit and treasury obligations, to be cash equivalents. Bank CD's and treasury obligations are considered to be temporary investments, not cash equivalents.

The Organization's cash and cash equivalent accounts and interest bearing deposits in banks and other financial institutions may at times exceed the federally insured limits. The Organization has not experienced any losses in these accounts. Management believes that the Organization is not exposed to any significant risk on these deposits.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies (Cont'd)

Investments:

Investments consist solely of shares of a multi-asset fund available primarily to foundations, endowments, other 501(c)(3) organizations, and certain other nonprofit organizations meeting specified accreditation requirements. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statements of Financial Position. Unrealized gains and losses and interest and dividend income are included in the change in net assets in the accompanying Statements of Activities. The Organization uses the average cost basis to determine realized gains or losses on sales.

Allowance for Doubtful Accounts:

The Organization uses the reserve for bad debt method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables. Based on management's assessments, the Organization provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Accounts are considered delinquent 30 days after invoice date. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment:

Purchased property and equipment are capitalized at cost. Expenditures that enhance the useful lives of the assets are capitalized and depreciated. Expenditures for maintenance and repairs are charged to expenses as incurred. Property and equipment are depreciated over their estimated useful lives using the straight-line method. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Compensated Absences:

Employees of the Organization are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. Employees leaving employment will not be paid for accumulated sick leave. The Organization has estimated the amount of compensation for future absences, and accordingly, the liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when earned, instead of when paid to employees.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies (Cont'd)

Management's Use of Estimates and Assumptions:

Management uses estimates and assumptions in preparing its financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Donated Services:

Contributed services are included in the financial statements as support and expenses in those cases where the services provided: (1) are significant and form an integral part of the efforts of the Organization, (2) would be performed by salaried personnel if contributed services were not available, and (3) the Organization controls the employment and duties of the service donors. The value of contributed services is based upon the actual salaries and benefits paid to the individual by the contributing organization. The value of the contribution of casual or occasional services is not included in the financial statements, since such services are not susceptible to objective measurement.

Public Support and Revenue Recognition:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long term promises to give and are recorded at the present values of their net realizable values, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires during the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restriction.

Clinical fees are recognized when the services are rendered to the patient.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies (Cont'd)

Public Support and Revenue Recognition (Cont'd):

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets, unless the donor has restricted the donated asset to a specific purpose. Restricted assets are those donated with explicit restrictions regarding their uses and contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The Organization accounts for grant and contract revenues, which are exchange transactions, in the Statements of Activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. Any excess or deficiency of cash receipts over expenditures incurred is reported as "refundable advance" or "government receivables", respectively. Upon termination, unexpended cash funds received under the terms of the grant provisions revert to the grantor, and are recorded as refundable advances in the Statements of Financial Position.

Grants are subject to audits by the grantor. There was a refundable advance of \$26,357 at June 30, 2015. There was a government receivable of \$13,230 at June 30, 2014.

Income from special events and fundraisers for the next fiscal year is deferred and recognized in the period that the events take place.

Federal Income Tax Status:

The Organization has received a determination letter from the Internal Revenue Service concluding that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for deductible contributions as provided in Section 170(b)(1)(A).

The Organization's federal exempt returns for 2012-2015 are subject to examination by the IRS, generally for three years after they were filed. The statute of limitations does not apply to unfiled returns. The Organization believes that all required returns have been filed.

In the event it would be required, the Organization would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Organization has not recognized any amounts for interest and penalties accrued at June 30, 2015 and 2014.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies (Cont'd)

Advertising Costs:

The Organization expenses the costs of advertising and promotion as incurred. Advertising costs charged to operations amounted to \$1,969 and \$3,076 for the years ended June 30, 2015 and 2014, respectively.

Functional Allocation of Expenses:

Certain operating expenses have been allocated to program services based on the reasonable benefit that the program derived from these expenses. There are various funding sources providing support towards the Organization's programs, and some of the expenses charged to the programs represent direct expenses related to program operations and objectives.

Date of Management Evaluation of Subsequent Events:

Management has evaluated subsequent events through January 21, 2016, the date on which the financial statements were available to be issued.

Note 2. Restrictions on Net Assets

Temporarily restricted net assets at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Outreach programs	\$ 38,268	\$ 33,000
Net income from endowment funds	<u>89,331</u>	<u>348,314</u>
Total	<u>\$127,599</u>	<u>\$381,314</u>

Net assets were released from donor restrictions as follows:

	<u>2015</u>	<u>2014</u>
Purpose restriction accomplished:		
Expenses incurred to satisfy donor restrictions	<u>\$164,632</u>	<u>\$185,170</u>

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 2. Restrictions on Net Assets (Cont'd)

Permanently Restricted Net Assets:

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Organization. Income generated by these assets can be used for operating activities.

Note 3. Patient Receivables

Patient receivables represent clinical, contraception, pregnancy and disease-testing services that remain unpaid. Patient receivables of \$-0- and \$1,185 at June 30, 2015 and 2014 are recorded net of an allowance for uncollectible receivables in the amount of \$-0- and \$6,714, respectively. The clinic closed during 2014 and all remaining receivables were written off by June 30, 2015.

Note 4. Investments - Restricted

Investments, stated at fair value, consist of shares of a multi-asset fund and relate solely to the permanent endowment. Income earned on the permanent endowment is restricted for use as defined in the Organization's investment policy. Fair values and unrealized appreciation at June 30, 2015 and 2014 are summarized as follows:

<u>June 30, 2015</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized appreciation</u>
Mutual funds	<u>\$1,116,431</u>	<u>\$1,258,178</u>	<u>\$141,747</u>
<u>June 30, 2014</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized appreciation</u>
Mutual funds	<u>\$1,069,209</u>	<u>\$1,315,206</u>	<u>\$ 245,997</u>

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 4. Investments - Restricted (Cont'd)

The following schedule summarizes the investment income (loss) and its classification in the Statements of Activities:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 83,699	\$134,997
Investment fees	(236)	(643)
Net realized and unrealized gains (losses)	<u>(93,411)</u>	<u>27,611</u>
Total investment income (loss)	<u>\$ (9,948)</u>	<u>\$161,965</u>

The Organization's investments are solely in a multi-asset fund (the "Fund"). The Fund invests in illiquid securities. The Fund or certain of its money managers may invest routinely, and at times heavily, in derivatives, certain of which are deemed by the SEC to be highly speculative. Short selling of securities may increase the potential for loss if a manager has difficulty covering a short position. Leverage may accelerate the velocity and magnitude of potential losses. The Fund invests in foreign securities, which may involve risks different from those of United States of America investments, such as political, economic and currency risks, and differences in accounting standards.

The fair value measurements accounting literature establishes a framework for measuring fair value. That framework provides 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 as follows: Level 1, Quoted Prices in Active Markets; Level 2, Observable Measurement Criteria; and Level 3, Unobservable Measurement Criteria.

For applicable assets and liabilities subject to this pronouncement, the Organization will value such assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible. To the extent that such market prices are not available, the Organization will next attempt to value such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets and other corroborated factors. In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Organization will develop measurement criteria based on the best information available. The Organization has only Level 1 investments.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 5. Contribution Receivable - Charitable Trust

During 1997, a donor established a one-life charitable remainder unitrust (the "Trust") with a financial institution that ended upon his death in 2005. At the time of the donor's death, the Trust terminated, and the remaining Trust assets are to be distributed to the Organization, as well as to other community nonprofit organizations. Pursuant to the agreement, the Organization is to receive \$25,000 annually, payable in equal quarterly installments, for its unrestricted use for a period of fifteen (15) years. Based on the period of time that the Organization will receive the benefits, a 5% discount rate was applied, with the present value of future benefits expected to be received by the Organization estimated to be \$291,766, which was reported in the 2006 Statement of Activities. The Organization received \$24,356 and \$24,356 from the Trust for the years ended June 30, 2015 and 2014, respectively.

The Organization expects to receive the following amounts in the next five years.

	<u>Principal</u>	<u>Discount</u>	<u>Net amortized receivable</u>
Within one year:	\$ 25,000	\$ 5,394	\$ 19,606
One to five years:	\$ 96,838	\$ 11,018	\$ 85,820
Beyond five years:	\$ -	\$ -	\$ -

Note 6. Property and Equipment

Property and equipment includes the following:

	<u>Estimated useful lives in years</u>	<u>2015</u>	<u>2014</u>
Land	-	\$ 57,500	\$ 57,500
Building and improvements.....	7-39	739,344	739,344
Furniture and fixtures.....	5-7	30,020	30,020
Equipment	5-7	<u>247,896</u>	<u>247,896</u>
		1,074,760	1,074,760
Accumulated depreciation.....		<u>729,857</u>	<u>686,095</u>
		<u>\$ 344,903</u>	<u>\$ 388,665</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$43,762 and \$48,577, respectively.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 7. Deferred Loan Fees

Loan fees incurred for bank financing have been accounted for as a reduction in related outstanding loans and are being amortized over the life of the loan, which is twenty years.

Deferred loan fees include the following:

	<u>2015</u>	<u>2014</u>
Loan fees	\$ 7,834	\$ 7,834
Less: accumulated amortization.....	<u>3,003</u>	<u>2,611</u>
Loan fees, net.....	<u>\$ 4,831</u>	<u>\$ 5,223</u>

Amortization expense for the years ended June 30, 2015 and 2014 was \$392 and \$392, respectively.

Note 8. Long Term Debt

Long term debt consists of the following:

	<u>2015</u>	<u>2014</u>
Mortgage payable Bank of Princeton; dated November 15, 2007; due monthly at \$3,939 including interest at 6.25%; with a final payment due on November 15, 2027. The loan has a loan call/rate reset option at the end of the fifth, tenth, and fifteenth years and will adjust on each fifth year anniversary to the then current five year treasury rate plus 250 basis points. The interest rate was adjusted to 3.12% retroactive to November 15, 2012. The mortgage is collateralized by real property located in Mercer County, State of New Jersey with a book value of \$324,428, an assignment of leases and rent on the real property, and substantially all other assets now owned or hereafter acquired	\$387,911	\$403,875
Loan payable Bank of Princeton; dated April 20, 2012; due monthly at \$932 including interest at 6.00%; with a final payment due on April 20, 2017. The loan is collateralized by all real and personal property of the Organization.....	19,339	29,024

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 8. Long Term Debt (Cont'd)

	<u>2015</u>	<u>2014</u>
Loan payable related party; dated November 28, 2011; due in installments at the Organization's discretion; interest at 0%; unsecured; with a final payment due on December 1, 2015	<u>15,000</u>	<u>30,000</u>
	422,250	462,899
Current maturities.....	<u>60,934</u>	<u>75,422</u>
	<u>\$361,316</u>	<u>\$387,477</u>

Total maturities of long term debt for the years ending June 30 are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2016.....	\$ 60,934
2017.....	45,811
2018.....	37,949
2019.....	39,151
2020.....	40,374
2021 and thereafter	<u>137,097</u>
Total	<u>\$361,316</u>

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 9. Capital Lease Obligation

The capital lease obligation arose from the acquisition of computer equipment and is payable in monthly installments of \$302, including an imputed interest rate of 9.8% through July 2015.

Future minimum lease payments under the capital lease obligation at June 30, 2015 are:

<u>Year ended June 30,</u>	<u>Amount</u>
2016	\$ 302
Less: amount representing interest.....	<u>3</u>
Present value of net minimum lease payments.....	299
Less: current portion	<u>(299)</u>
Long term portion	<u>\$ -</u>

Note 10. Related Party

The Organization was loaned funds from a related party in November 2011 in the amount of \$60,000 (see Note 8). The loan is unsecured, bears no interest, and has an extended due date of December 1, 2015. In 2015 and 2014, the Organization made principal payments of \$15,000 and \$15,000, respectively. The loan balance was \$15,000 and \$30,000 as of June 30, 2015 and 2014, respectively.

Note 11. Endowment Policy

Endowment Description and Interpretation of Relevant Law:

From 2004 through 2012, the Organization received contributions for a nonexpendable endowment fund (the "Endowment Fund"). All earnings, including interest and dividends and realized and unrealized gains, are expendable, but restricted to use for support of the Organization's operating budget (the "spending amount") subject to the Organization's total return spending policy ("spending policy").

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 11. Endowment Policy (Cont'd)

Endowment Description and Interpretation of Relevant Law (Cont'd):

The Endowment Fund consists of contributions of \$1,168,847, which are recorded at cost. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. In June 2009, the State of New Jersey enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which replaced the prior Uniform Management of Institutional Funds Act ("UMIFA"). During 2009, the Board of Trustees interpreted the new act as allowing the Organization the powers to manage and invest the funds in good faith and with the care an ordinarily prudent person, in a like position, would exercise under similar circumstances. Unless stated otherwise in the gift instrument, the assets in an Endowment Fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the Organization has not changed the way permanently restricted net assets are classified. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure or borrowed in accordance with the Organization's borrowing and lending policy.

During 2008, the Board of Trustees of the Organization had interpreted the Uniform Management of Institutional Funds Act to require standard care that is reasonable and prudent over its Endowment Fund. The Organization classified permanently restricted net assets as the original value of gifts donated to the permanent endowment. The remaining portion of the Endowment Fund was classified as temporarily restricted net assets if donor-restricted in purpose, or unrestricted net assets if no specific purpose had been designated.

The Board of the Organization has adopted a spending policy for the Endowment Fund, so that the amount to be withdrawn from the Endowment Fund each year for the support of the spending amount is determined without regard to the availability of current income, and investment decisions can be made without regard to the need to produce current income. The Endowment Fund is subject to the spending limitations set forth at N.J.S.A. 15:18-15 et seq. The spending amount is determined by multiplying the spending rate by the average value of the Endowment Fund at the end of the three prior fiscal years, provided that spending is made from all eligible income over the historic dollar value of the Endowment Fund. Fees and costs associated with management of the Endowment Fund are not counted against the spending amount. The spending amount is 7% of the value of the Endowment Fund at the end of the most recent fiscal year. The Board may, from time to time, by a written resolution release the limitations and restrictions on the use of the Endowment Funds. The Board has adopted a spending rate of between 5% and 7%. For the years ended June 30, 2015 and 2014, the amounts appropriated in accordance with the spending policy were \$87,000 and \$88,000, respectively.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 11. Endowment Policy (Cont'd)

Borrowing and Lending:

The Board adopted a borrowing and lending policy. Recognizing that the Endowment Fund may represent a cheaper source of financing than bank borrowings, the Organization, with the approval of the Board, may transfer funds from the Endowment Fund account to its operating account for the purpose of temporarily funding seasonal shortfalls in its working capital. Total borrowings may not exceed the greater of \$100,000 or 10% of the total value of the Endowment Fund, and any borrowed funds must be repaid to the Endowment Fund as soon as possible, and in any case within twelve months, plus interest at the prevailing market rate. No withdrawal of the annual spending amount from the Endowment Fund is permitted while any borrowed funds remain outstanding. At June 30, 2015 and 2014, the Organization has outstanding borrowings from the Endowment Fund in the amount of \$-0- and \$407,092, respectively.

During the year ended June 30, 2015, the Board of Trustees invoked a provision in the borrowing and lending policy to waive the spending limitations and to forgive the loan. This does not change the amount in the Endowment Fund and the value still exceeds the original permanently restricted contributions. As a result of the cancellation of the loan, \$161,955 of accumulated net income from the Endowment Fund was transferred from temporarily restricted net assets to unrestricted.

Endowment Investment Policies:

The Endowment Fund assets are invested with a long term horizon, consistent with the perpetual nature of the Endowment Fund. To reduce risk, endowment assets are invested in as broadly diversified a manner as possible, within the constraint of the Endowment Fund's size and Organization's limited human resources. The Organization invests assets of its Endowment Fund by utilizing pooled investment funds or separate accounts managed by professional investment advisors.

Under the provisions of UPMIFA, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. The permanently restricted net assets of such Endowment Funds should always equal their historic dollar value. An Endowment Fund that has become "underwater" will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligations to restore the Endowment Fund for such losses. Unrestricted net assets that have been reduced because of this requirement will be restored from future gains for that reduction.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 11. Endowment Policy (Cont'd)

Changes in Endowment Net Assets for the Year Ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 70,535	\$348,314	\$1,168,847	\$1,587,696
Loan from endowment, beginning of of year	<u>(407,092)</u>	<u>-</u>	<u>-</u>	<u>(407,092)</u>
Endowment net assets, beginning of year, including loan from endowment	<u>(336,557)</u>	<u>348,314</u>	<u>1,168,847</u>	<u>1,180,604</u>
Investment income (loss):				
Interest and dividends	-	83,619	-	83,619
Investment fees	-	(236)	-	(236)
Net unrealized appreciation	-	7,357	-	7,357
Realized gains (losses)	<u>-</u>	<u>(100,768)</u>	<u>-</u>	<u>(100,768)</u>
Total investment income (loss) ...	<u>-</u>	<u>(10,028)</u>	<u>-</u>	<u>(10,028)</u>
Appropriated for spending	-	(87,000)	-	(87,000)
Adjustment to reconcile balances	(70,535)	-	-	(70,535)
Cancelled loan from endowment	407,092	-	-	407,092
Transfer of net assets - cancelled loan...	<u>-</u>	<u>(161,955)</u>	<u>-</u>	<u>(161,955)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 89,331</u>	<u>\$1,168,847</u>	<u>\$1,258,178</u>

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 11. Endowment Policy (Cont'd)

Changes in Endowment Net Assets for the Year Ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year, excluding loan from endowment ...	\$ 70,535	\$ 274,471	\$ 1,168,847	\$ 1,513,853
Loan from endowment, beginning of year	<u>(407,092)</u>	<u>-</u>	<u>-</u>	<u>(407,092)</u>
Endowment net assets, beginning of year, including loan from endowment	<u>(336,557)</u>	<u>274,471</u>	<u>1,168,847</u>	<u>1,106,761</u>
Investment income (loss):				
Interest and dividends	-	134,876	-	134,876
Investment fees	-	(643)	-	(643)
Net unrealized appreciation	-	1,673	-	1,673
Realized gains	<u>-</u>	<u>25,937</u>	<u>-</u>	<u>25,937</u>
Total investment income	<u>-</u>	<u>161,843</u>	<u>-</u>	<u>161,843</u>
Appropriated for spending	<u>-</u>	<u>(88,000)</u>	<u>-</u>	<u>(88,000)</u>
Endowment net assets, end of year	<u>\$(336,557)</u>	<u>\$ 348,314</u>	<u>\$ 1,168,847</u>	<u>\$ 1,180,604</u>

Note 12. Commitments

An operating lease agreement was entered into for a copier, effective July 8, 2013, for a period of sixty months. The lease provides for total rent payable in equal monthly installments of \$305, with the final payment due in June 2018.

HiTOPS, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED JUNE 30, 2015 AND 2014

Note 12. Commitments (Cont'd)

Minimum future rental payments under the non-cancellable operating lease, having a remaining term in excess of one year as of June 30, 2015, for each of the remaining years and in the aggregate are:

<u>Year ended June 30,</u>	<u>Amount</u>
2016.....	\$ 3,660
2017.....	3,660
2018.....	3,660
2019 and thereafter.....	<u>-</u>
Total minimum future rental payments	<u>\$ 10,980</u>

The total rental expense under all operating leases for the years ended June 30, 2015 and 2014 was \$8,743 and \$6,767, respectively.

Note 13. Profit-Sharing Plan - Defined Contribution

The Organization sponsors a 403(b) plan whereby eligible participating employees may elect to contribute up to a maximum amount allowed under the Internal Revenue Code. There was no Organization match for the years ended June 30, 2015 and 2014.

Note 14. Working Capital Deficit

HiTOPS, Inc. has experienced decreases in net assets for three of the past five years, which has resulted from difficulty in obtaining sufficient unrestricted funds to provide working capital. As of June 30, 2015, the Organization's current liabilities exceeded its current assets by \$164,910. HiTOPS, Inc. has been generating an annual stream of cash flow of approximately \$110,000 from the appropriated spending of investment income from its endowment fund (see Note 11) and as beneficiary of a charitable remainder trust (see Note 5). The Board of Trustees have also increased their efforts to procure more unrestricted contributions to assist HiTOPS, Inc. in alleviating its working capital deficit.

Note 15. Reclassifications

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's formats. Net assets and changes in net assets are unchanged due to these reclassifications.