

ARIZONA HELPING HANDS, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2018

ARIZONA HELPING HANDS, INC.

Year Ended June 30, 2018

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**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the *Arizona Helping Hands, Inc.*;

Report on the Financial Statements

I have audited the accompanying financial statements of Arizona Helping Hands, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 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.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of Arizona Helping Hands, Inc. as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited Arizona Helping Hands, Inc.'s 2017 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated October 26, 2017. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
November 27, 2018

ARIZONA HELPING HANDS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(with comparative totals at June 30, 2017)

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	689,885	\$ 250,124
Contributions receivable	78,957	20,000
Inventory	387,657	335,514
Other assets	9,473	2,700
TOTAL CURRENT ASSETS	<u>1,165,972</u>	<u>608,338</u>
CONTRIBUTIONS RECEIVABLE	108,500	-
PROPERTY AND EQUIPMENT, net	2,047,037	132,014
INVESTMENTS	<u>1,099,959</u>	<u>1,085,519</u>
TOTAL ASSETS	<u>\$ 4,421,468</u>	<u>\$ 1,825,871</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 55,304	\$ 16,565
Other accrued liabilities	33,649	12,936
Long-term debt, current portion	187,689	-
TOTAL CURRENT LIABILITIES	<u>276,642</u>	<u>29,501</u>
LONG-TERM DEBT, NET OF CURRENT PORTION	<u>887,311</u>	<u>-</u>
TOTAL LIABILITIES	1,163,953	29,501
NET ASSETS		
Unrestricted, undesignated	2,703,771	1,381,550
Unrestricted, designated	<u>366,287</u>	<u>363,069</u>
Unrestricted	3,070,058	1,744,619
Temporarily restricted	<u>187,457</u>	<u>51,751</u>
TOTAL NET ASSETS	<u>3,257,515</u>	<u>1,796,370</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,421,468</u>	<u>\$ 1,825,871</u>

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

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

	Unrestricted	Temporarily Restricted	2018	2017
SUPPORT AND REVENUE				
Contributions and grants	2,110,656	\$ 765,057	\$ 2,875,713	\$ 1,655,035
Contracts and program service revenue	-	-	-	113,283
Donated materials and services	2,125,802	-	2,125,802	1,578,771
Interest income	-	-	-	3,508
Other	33,339	-	33,339	2,369
	<u>4,269,797</u>	<u>765,057</u>	<u>5,034,854</u>	<u>3,352,966</u>
Total support and revenue before special events and net assets released from restrictions				
Special events				
Revenue from special events	9,042	-	9,042	11,393
Less costs of direct donor benefits	(6,806)	-	(6,806)	(12,511)
	<u>2,236</u>	<u>-</u>	<u>2,236</u>	<u>(1,118)</u>
Gross profit (loss) on special events				
Net assets released from restrictions	629,351	(629,351)	-	-
	<u>4,901,384</u>	<u>135,706</u>	<u>5,037,090</u>	<u>3,351,848</u>
TOTAL SUPPORT AND REVENUE				
EXPENSES				
Program services	3,327,997	-	3,327,997	2,373,558
Supporting services:				
Management and general	155,606	-	155,606	149,194
Fundraising	92,342	-	92,342	81,591
	<u>247,948</u>	<u>-</u>	<u>247,948</u>	<u>230,785</u>
Total supporting services				
	<u>3,575,945</u>	<u>-</u>	<u>3,575,945</u>	<u>2,604,343</u>
TOTAL EXPENSES				
CHANGE IN NET ASSETS	1,325,439	135,706	1,461,145	747,505
NET ASSETS, BEGINNING OF YEAR	1,744,619	51,751	1,796,370	1,048,865
	<u>\$ 3,070,058</u>	<u>\$ 187,457</u>	<u>\$ 3,257,515</u>	<u>\$ 1,796,370</u>
NET ASSETS, END OF YEAR				

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

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

	Supporting Services			Total Supporting Services	Total Expenses 2018	2017
	Program Services	Management and General	Fundraising			
Salaries and wages	\$ 209,460	\$ 78,151	\$ 25,499	\$ 103,650	\$ 313,110	\$ 252,197
Payroll taxes and benefits	24,781	9,246	3,017	12,263	37,044	29,606
	234,241	87,397	28,516	115,913	350,154	281,803
Professional fees	89,392	31,720	23,069	54,789	144,181	54,224
Toy drive	444,834	-	-	-	444,834	919,750
Birthday program	800,126	-	-	-	800,126	489,784
Foster Care	1,436,137	-	-	-	1,436,137	628,293
Dream kits	39,478	-	-	-	39,478	14,251
Crisis support	19,849	-	-	-	19,849	5,973
Backpack program	131,120	-	-	-	131,120	5,490
Other program services	-	-	-	-	-	792
Occupancy	68,581	7,620	-	7,620	76,201	72,910
Telephone and Internet	3,370	1,257	410	1,667	5,037	4,045
Bank and credit card fees	-	3,024	27,214	30,238	30,238	24,086
Operating expenses	6,595	2,461	803	3,264	9,859	16,079
Office supplies	15,779	5,887	1,921	7,808	23,587	8,824
Insurance	7,171	2,676	873	3,549	10,720	8,760
Depreciation	15,416	5,752	1,877	7,629	23,045	18,942
Printing and postage	2,936	4,195	1,258	5,453	8,389	8,932
Advertising, marketing and promotions	1,550	3,617	5,169	8,786	10,336	18,227
Travel	11,092	-	1,232	1,232	12,324	6,937
Repairs and maintenance	-	-	-	-	-	180
Interest	330	-	-	-	330	-
Other expense	-	-	-	-	-	16,061
	\$ 3,327,997	\$ 155,606	\$ 92,342	\$ 247,948	\$ 3,575,945	\$ 2,604,343

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.

Year Ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,461,145	\$ 747,505
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,044	18,942
Net realized and unrealized (gain)/loss on investments	(2,131)	-
Gain/loss on disposal of property and equipment	3,225	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable	(167,457)	50,750
Inventory	(52,143)	78,300
Other assets	(6,773)	-
Increase (decrease) in:		
Accounts payable	38,739	(8,817)
Accrued expenses	20,713	12,936
Net cash provided by (used in) operating activities	1,318,362	899,616
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(12,309)	(698,424)
Purchases of property and equipment	(1,941,292)	(63,927)
Net cash used in investing activities	(1,953,601)	(762,351)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	1,075,000	-
Net cash provided by financing activities	1,075,000	-
NET CHANGE IN CASH	439,761	137,265
CASH, BEGINNING OF YEAR	250,124	112,859
CASH, END OF YEAR	\$ 689,885	\$ 250,124
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

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ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(with summarized comparative totals as of June 30, 2017)

(1) Organization operations and summary of significant accounting policies

Nature of operations – *Arizona Helping Hands Inc. (AHH)* was established and incorporated in 1998 in the State of Arizona. The organization's mission is to provide basic essential needs to boys and girls in foster care throughout Arizona. Programs include providing beds, cribs, clothing, diapers, personal care packages, back to school supplies, holiday toys and personalized birthday packages to thousands of boys and girls State-wide.

The significant accounting policies followed by AHH are as follows:

Basis of presentation - The financial statement presentation follows *Financial Statements of Not-for-Profit Organizations*. Under this standard, AHH is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2018 and 2017, AHH had no permanently restricted net assets.

Managements' use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions - AHH recognizes contributions and support in accordance with *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated materials and services - Donated facilities, materials and services are recorded at their estimated values if they enhance AHH's nonfinancial assets or require specialized skills that AHH would normally purchase, if not provided by donation. AHH received donated materials and services, which are included in the accompanying statement of activities, with an estimated value of \$2,125,802 and \$1,578,771 during the years ended June 30, 2018 and 2017, respectively. Donated material and services were approximately 42% and 47% of total revenue for the year ended June 30, 2018 and 2017, respectively.

Volunteers donate a significant amount of time to AHH's program services and its fundraising activities. No amounts have been reflected in the financial statements for these services, since they did not meet the recognition requirements under generally accepted accounting principles.

Cash and equivalents - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at cash institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). From time to time, these deposits may exceed the insurance amounts provided by the FDIC.

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ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(with summarized comparative totals as of June 30, 2017)

(1) **Nature of operations and summary of significant accounting policies (continued)**

Contributions receivable - Unconditional promises to give (pledges) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received.

Inventories – Inventories consist primarily of donated toys, clothing, furniture, artwork, household and other donated items. The value of donated inventory is estimated using estimated retail or replacement values. Any inventory that is purchased is stated at the lower of cost or market using a specific identification method.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at the fair value at the date of the gift to AHH. Maintenance and repairs are charged to operations when incurred. Improvements and renewals in excess of \$1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight line basis over estimated useful life of 5 to 15 years.

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

Impairment of long-lived assets – AHH accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the 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 believes that no long-lived assets have any impairment of value.

Special events revenue - AHH conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to

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ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(with summarized comparative totals as of June 30, 2017)

(1) Nature of operations and summary of significant accounting policies (continued)

AHH. The direct costs of the special events, which ultimately benefit the donor rather than AHH, are recorded as costs of direct donor benefits in the accompanying statement of activities.

Functional allocation of expenses - The costs of providing programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the program and supporting services benefited based on management's estimate of time devoted to each activity.

Income tax status - AHH qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for income taxes. In addition, AHH qualifies for the charitable contribution deduction under Section 170 of the code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

AHH has adopted *Accounting for Uncertainty in Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The tax years ended 2015, 2016, and 2017 are still open to audit for both federal and state purposes. AHH has processes presently in place to ensure the maintenance of its tax-exempt status; its group exemption; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. AHH has determined there is no impact on the accompanying financial statements related to the adoption of this standard.

Subsequent events - AHH evaluated subsequent events after the statement of financial position date of June 30, 2018, through November 27, 2018, which was the date AHH's financial statements were available to be issued. No conditions were noted, other than those described below, that did not exist as of June 30, 2018, but arose subsequent to that date.

- AHH began operations at its new facility on November 1, 2018 and ceased operations and the lease for its prior facility on November 30, 2018.

(2) Contributions receivable

Contributions receivable consist of:	2018	2017
Contributions due in less than 1 year	\$ 78,957	\$ 20,000
Contributions due in 1 to 5 years	108,500	-
Gross contributions receivable	187,457	20,000
Allowance	-	-
Discount	-	-
Total contributions receivable, net	<u>\$ 187,457</u>	<u>\$ 20,000</u>

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ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(with summarized comparative totals as of June 30, 2017)

(2) Contributions receivable (continued)

Contributions receivable due in 1 to 5 years of \$108,500 at June 30, 2018, are due in part in 2019 and 2020, accordingly, a discount on those promises to give is clearly immaterial and management does not consider a discount necessary. Contributions receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

(3) Investments and fair value measurements

AHH reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. Investments are exposed to various risks, such as interest rate, market, and credit risk. Investments were approximately 25% and 59% of total assets for the years ended June 30, 2018 and 2017, respectively.

AHH applies authoritative guidance related to *Accounting for Fair Values of Investments*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). AHH has set up a valuation framework that 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 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.);
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(with summarized comparative totals as of June 30, 2017)

(3) Investments and fair value measurements (continued)

Fair value of assets at June 30, 2018 are measured as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 765,939	\$ -	\$ -	\$ 765,939
Cash and cash equivalents	334,020	-	-	334,020
Total	<u>\$ 1,099,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,099,959</u>

Fair value of assets at June 30, 2017 are measured as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 1,082,484	\$ -	\$ -	\$ 1,082,484
Cash and cash equivalents	3,035	-	-	3,035
Total	<u>\$ 1,085,519</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,085,519</u>

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based upon the lowest level input that is significant to the fair value measurement in its entirety.

(4) Property and equipment

Property and equipment consist of:	<u>2018</u>	<u>2017</u>
Cost or donated value:		
Furniture, fixtures and equipment	\$ 18,387	\$ 16,948
Computer and office equipment	23,753	23,753
Vehicles	91,984	91,984
Leasehold improvements	62,389	62,389
Building/construction in progress	1,901,318	-
Software in progress	33,927	-
Total cost or donated value	<u>2,131,758</u>	<u>195,074</u>
Accumulated depreciation	<u>(84,721)</u>	<u>(63,060)</u>
Net property and equipment	<u>\$ 2,047,037</u>	<u>\$ 132,014</u>

For the years ended June 30, 2018 and 2017, depreciation expense charged to operations was \$23,044 and \$18,942, respectively.

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ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(with summarized comparative totals as of June 30, 2017)

(5) Operating leases

AHH leases office space under an operating lease agreement expiring in 2019. The rental expense related to these leases is recorded on a straight-line basis over the lease term. Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year at June 30, 2018, are as follows:

<u>Years Ending June 30,</u>		
2019	\$	23,168
2020		-
2021		-
2022		-
2023		-
Thereafter		-
Total minimum future lease payments	<u>\$</u>	<u>23,168</u>

Total rental expense was \$69,503 and \$73,090 for the years ended 2018 and 2017, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

(6) Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2018, consist of the following:

	2018	2017
Purpose restrictions:		
Events	\$ -	\$ 25,000
Governance	-	6,751
Time restrictions:		
Contributions receivable	187,457	20,000
Total temporarily restricted net assets	\$ 187,457	\$ 51,751

See Independent Accountants' Report