

ARIZONA HELPING HANDS, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2020

ARIZONA HELPING HANDS, INC.

Year Ended June 30, 2020

TABLE OF CONTENTS

	<i>Pages</i>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 16



**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, 2020, 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, 2020, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, *Arizona Helping Hands, Inc.* adopted the new accounting standards as required by FASB Accounting Standard Update (ASU) No. 2014-09, ASU No. 2016-01, ASU 2018-03, and ASU 2018-08. My opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

I have previously audited Arizona Helping Hands, Inc.'s 2019 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated October 24, 2019. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
October 29, 2020

ARIZONA HELPING HANDS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2020

(with comparative totals at June 30, 2019)

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	992,990	\$ 770,476
Contributions receivable, current portion	87,675	244,163
Inventory	1,157,230	1,574,476
Other assets	45,227	24,977
TOTAL CURRENT ASSETS	<u>2,283,122</u>	<u>2,614,092</u>
CONTRIBUTIONS RECEIVABLE, NET OF CURRENT PORTION	-	33,978
PROPERTY AND EQUIPMENT, net	3,375,498	3,407,607
INVESTMENTS	<u>1,626,544</u>	<u>1,121,874</u>
TOTAL ASSETS	<u>\$ 7,285,164</u>	<u>\$ 7,177,551</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 39,394	\$ 131,203
Other accrued liabilities	89,139	58,079
Long-term debt, current portion	51,688	34,632
TOTAL CURRENT LIABILITIES	<u>180,221</u>	<u>223,914</u>
LONG-TERM DEBT, NET OF CURRENT PORTION	<u>64,612</u>	<u>494,654</u>
TOTAL LIABILITIES	244,833	718,568
NET ASSETS		
Undesignated net assets without donor restrictions	6,570,997	5,805,647
Board designated net assets without donor restrictions	<u>381,659</u>	<u>375,195</u>
Net assets without donor restrictions	6,952,656	6,180,842
Net assets with donor restrictions	<u>87,675</u>	<u>278,141</u>
TOTAL NET ASSETS	<u>7,040,331</u>	<u>6,458,983</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,285,164</u>	<u>\$ 7,177,551</u>

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Net assets without donor restrictions	Net assets with donor restrictions	2020	2019
SUPPORT AND REVENUE				
Contributions and grants	2,230,799	\$ 553,631	\$ 2,784,430	\$ 3,405,715
Donated materials, services and building improvements	2,097,775	-	2,097,775	4,161,594
Investment income	25,226	-	25,226	26,495
Rental income	32,000	-	32,000	19,116
Loss on disposal of assets	-	-	-	(51,109)
Merchandise sales, less cost of sales of \$7,641	2,667	-	2,667	-
Other	4,530	-	4,530	9,460
Total support and revenue before special events and net assets released from restrictions	4,392,997	553,631	4,946,628	7,571,271
Special events				
Revenue from special events	87,853	-	87,853	107,831
Less costs of direct donor benefits	-	-	-	3,855
Gross profit (loss) on special events	87,853	-	87,853	111,686
Net assets released from restrictions	744,097	(744,097)	-	-
TOTAL SUPPORT AND REVENUE	5,224,947	(190,466)	5,034,481	7,682,957
EXPENSES				
Program services	4,168,498	-	4,168,498	4,170,934
Supporting services:				
Management and general	133,811	-	133,811	140,804
Fundraising	150,824	-	150,824	169,751
Total supporting services	284,635	-	284,635	310,555
TOTAL EXPENSES	4,453,133	-	4,453,133	4,481,489
CHANGE IN NET ASSETS	771,814	(190,466)	581,348	3,201,468
NET ASSETS, BEGINNING OF YEAR	6,180,842	278,141	6,458,983	3,257,515
NET ASSETS, END OF YEAR	\$ 6,952,656	\$ 87,675	\$ 7,040,331	\$ 6,458,983

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Supporting Services			Total Expenses 2020	2019
	Program Services	Management and General	Fundraising		
Salaries and wages	\$ 429,625	\$ 87,170	\$ 105,850	\$ 193,020	\$ 479,910
Payroll taxes and benefits	65,183	13,226	16,060	29,286	73,002
	<u>494,808</u>	<u>100,396</u>	<u>121,910</u>	<u>222,306</u>	<u>552,912</u>
Professional fees	60,330	25,850	13,205	39,055	45,188
Toy drive	676,045	-	-	-	587,474
Birthday program	290,596	-	-	-	241,047
Foster Care	2,141,769	-	-	-	2,516,194
Crisis support	13,964	-	-	-	17,064
Backpack program	192,291	-	-	-	136,100
Occupancy	52,689	-	-	-	73,808
Telephone and Internet	11,506	551	184	735	15,497
Bank and credit card fees	28,691	-	3,188	3,188	28,807
Operating expenses	9,326	377	212	589	36,593
Office supplies	10,832	582	233	815	34,143
Insurance	11,581	2,303	-	2,303	15,375
Depreciation	113,195	2,290	821	3,111	64,116
Printing and postage	7,884	424	170	594	8,924
Advertising, marketing and promotions	31,831	872	10,901	11,773	59,452
Travel and auto	8,204	166	-	166	11,377
Interest	12,956	-	-	-	37,418
	<u>\$ 4,168,498</u>	<u>\$ 133,811</u>	<u>\$ 150,824</u>	<u>\$ 284,635</u>	<u>\$ 4,481,489</u>

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 581,348	\$ 3,201,468
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	116,305	64,116
Net realized and unrealized (gain)/loss on investments	(9,127)	(5,220)
Gain/loss on disposal of property and equipment	-	51,109
Donation of property and equipment	-	(332,349)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable	190,466	(90,684)
Inventory	417,246	(1,186,819)
Other assets	(20,250)	(15,504)
Increase (decrease) in:		
Accounts payable	(91,809)	75,899
Accrued expenses	31,060	24,430
Net cash provided by (used in) operating activities	1,215,239	1,786,446
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(495,883)	(121,249)
Proceeds from sales of investments	340	104,554
Purchases of property and equipment	(84,196)	(1,143,446)
Net cash used in investing activities	(579,739)	(1,160,141)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(529,286)	(545,714)
Proceeds from long-term debt	116,300	-
Net cash provided by financing activities	(412,986)	(545,714)
NET CHANGE IN CASH	222,514	80,591
CASH, BEGINNING OF YEAR	770,476	689,885
CASH, END OF YEAR	\$ 992,990	\$ 770,476
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 12,738	\$ 54,640
Cash paid for income taxes	\$ -	\$ -

See Accompanying Notes to Financial Statements

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(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. AHH'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 reports information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets with Donor Restrictions – Assets subject to usage limitations based on donor imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of AHH. Certain restrictions may need to be maintained in perpetuity. The Organization had no restrictions required to be maintained in perpetuity.

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.

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.

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. Inventories are approximately 16% and 23% of total assets at June 30, 2020 and 2019, respectively.

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

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

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. 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 net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation of property and equipment is computed on a straight line basis over the following estimated useful lives:

Building and building improvements	39 years
Vehicles	5 years
Furniture, fixtures, equipment	3-5 years

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 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.

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.

Contributions - Contributions received are recorded as support with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions or without donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

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

Conditional contributions – Conditional contributions contain a donor-imposed condition that represents a barrier that must be overcome before AHH is entitled to the assets transferred or promised. Failure to overcome the barrier gives the donor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. Conditional contributions are recognized as support, either with or without donor restrictions, when donor-imposed conditions are substantially met (i.e. barriers are overcome). Restrictions on conditional contributions that are met in the same reporting period as the revenue is recognized are reported in the statement of activities as support within net assets without donor restrictions. AHH does not have any conditional contributions at June 30, 2020 and 2019.

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 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 consolidated statement of changes in net assets. All proceeds received in excess of the direct costs are recorded as special events contributions in the accompanying statement of activities.

Exchange transaction revenue recognition - Exchange transaction revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. AHH recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Since contracts in the year ended June 30, 2019 began and were completed during 2019, AHH has adopted the practical expedient under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-65-1(f) and will not restate contracts in 2019. AHH has concluded application of the expedient does not have a material effect on these financial statements. Since the amortization period for any incremental costs of obtaining any contract is one year or less, AHH has elected the practical expedient under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-65-1. AHH has elected to apply the practical expedient allowed under FASB ASC 606-10-10-4 for applying the revenue standard to a portfolio of contracts with similar characteristics. AHH accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics within each portfolio.

The portfolios consist of merchandise sales. Based on historical collection trends and other analysis, management has concluded that revenue for each portfolio type would not be materially different than if accounting for revenue on a contract-by-contract basis.

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

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

Exchange transaction revenue consists of the following:

Merchandise sales – AHH sells certain merchandise to the public that is related to its mission. Performance obligations for merchandise sales are satisfied at the point in time each sale is completed. The transaction price for the merchandise sales is based upon a predetermined retail price for each item. Because the performance obligations relate to contracts with a duration of less than one year, AHH has elected to apply the exemption provided the FASB ASC 606-10-50-14(a), and is not required to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. AHH did not have any unsatisfied or partially satisfied performance obligations, or any contract assets or liabilities, related to merchandise sales at June 30, 2020 or 2019. Since merchandise sales are completed on a point of sales basis, there is no financing component related to these sales. Since merchandise sales are at a predetermined retail sales price at the same time that the merchandise is received by the customer, AHH has elected to apply the “right to invoice” practical expedient as described in FASB ASC 606-10-55-18 and recognizes the revenue related to the merchandise sales at the point in time that the sales transaction is completed. Merchandise sales are recognized net of the related cost of goods sold on the accompanying statement of activities.

Donated materials, services and building improvements - Donated materials, services and building improvements 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, services, and building improvements which are included in the accompanying statement of activities, with an estimated value of \$2,097,775 and \$4,161,594 during the years ended June 30, 2020 and 2019, respectively and were approximately 42% and 52% of total revenue for the year ended June 30, 2020 and 2019, respectively. During the year ended June 30, 2019, AHH received donated building improvements of \$332,349.

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.

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.

See Independent Accountants’ Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

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

Income tax status – AHH is organized as a non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Sections 509(a)(1) and 170(b)(1)(A)(vi). Accordingly, contributions to AHH qualify for the charitable contribution deduction under Section 170. AHH is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, AHH is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined AHH has no taxable unrelated business income related to AHH's activities and it has not filed the Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent, Form 99-T. The tax years ended 2017, 2018, and 2019 are still open to audit for both federal and state purposes. Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. AHH would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Prior year summarized information - The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Subsequent events - AHH evaluated subsequent events after the statement of financial position date of June 30, 2020 through October 29, 2020, which was the date AHH's financial statements were available to be issued. No conditions were noted, other than those described below, which did not exist as of June 30, 2020, but arose subsequent to that date.

- At the time of this report's release, citizens and the economies of the United States and other countries have been impacted by the coronavirus (COVID-19) pandemic. The World Health Organization declared a Public Health Emergency on January 30, 2020. The evolution of the virus, the extent of its economic impact and the results of steps taken and yet to be taken by governments and financial institutions are unknown. Governments, businesses and non-profit organizations may face supply chain disruptions, labor shortages, revenue declines, an increase in bad debts, reduced cash flow, difficulties meeting loan covenants, goodwill and inventory impairment, credit difficulties, and other financial implications. Furthermore, the financial markets have experienced significant levels of volatility as a result of the pandemic. The significance and the duration of the pandemic's financial impact are indeterminable. These financial statements do not consider the potential financial implications of the pandemic.

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(2) Adoption of accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which AHH expects to be entitled in exchange for those goods or services. The new standard applies to exchange transaction revenue and does not apply to contribution revenue (Topic 958-605). In August 2015, the FASB issued 2015-014, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date of the new revenue recognition standard for one year. The new standards are effective for AHH's year ending December 31, 2019. AHH adopted the requirements of the new revenue recognition guidance as of January 1, 2019, utilizing the modified retrospective transition method. The initial application of this method is to be applied to all contracts as of the date of initial application. AHH's revenue consists of contributions which are excluded from the standard and are subject to the guidance in ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Accordingly, the cumulative effect of applying the new standard did not have a material effect on the recognition of revenue, changes in net assets or on the opening balance of net assets as compared with the previous guidance. The comparative information has not been restated and continues to be reported under the accounting standards in effect for that period, AHH expects the impact of the adoption of the new standard to be immaterial to changes in net assets on an ongoing basis. Adoption of the new standard did not result in any reclassifications or restatements to total net assets or changes in net assets.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Subsequent to the issuance of ASU 2016-01, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, to amend and clarify certain matters related to ASU 2016-01 and related guidance. The ASUs require that equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized in the changes in net assets and allows equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The standards also require enhanced disclosures about those investments. The new standards are effective for AHH's year ending June 30, 2020. AHH adopted the new standards effective July 1, 2019. The adoption of these new standards did not result in any changes in valuation of AHH's investments or require reclassifications or restatements to investment income, total net assets or changes in net assets.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as an exchange transaction or a contribution. The distinction is important because contributions are accounted for under Accounting Standards Codification (ASC) 958-605 *Not-For-Profit Entities - Revenue Recognition*, while exchange transactions are accounted for under other guidance such as ASC 606, *Revenue from Contracts with Customers*. The guidance also clarifies how entities will determine whether a contribution is conditional. The timing of revenue and expense recognition depends upon whether a contribution is conditional or unconditional.

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(2) Adoption of accounting pronouncements (continued)

The new standards are effective for AHH's year ending June 30, 2020. AHH adopted the requirements of the new standard as of July 1, 2019. AHH has retroactively adopted the standard for the year ended June 30, 2019, which is presented for comparative purposes. Adoption of the new standard did not result in any reclassifications or restatements to revenue, total net assets or changes in net assets.

(3) Liquidity and availability of financial assets

AHH regularly monitors liquidity required to meet its operating needs and other contractual commitments. AHH has various sources of liquidity at its disposal, including cash, investments and current contributions receivable. AHH structures its financial assets to be available to meet general expenditures, liabilities and other obligations as they come due. AHH manages its liquid resources by depositing excess cash in certificate of deposits and interest bearing cash accounts. In addition to financial assets available to meet general expenditures over the next 12 months, AHH prepares and operates within an annual budget.

Financial assets available to meet general expenditures within one year:

	<u>2020</u>	<u>2019</u>
Cash & cash equivalents	\$ 992,990	\$ 770,476
Contributions receivable due within one year	87,675	244,163
Investments	1,626,544	1,121,874
Less: Board designated net assets	(381,659)	(375,195)
Less: Net assets with donor restrictions	<u>(87,675)</u>	<u>(278,141)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,237,875</u>	<u>\$ 1,483,177</u>

(4) Contributions receivable

Contributions receivable consist of:	<u>2020</u>	<u>2019</u>
Contributions due in less than 1 year	\$ 87,675	\$ 244,163
Contributions due in 1 to 5 years	-	33,978
Gross contributions receivable	<u>87,675</u>	<u>278,141</u>
Allowance	-	-
Discount	-	-
Total contributions receivable, net	<u>\$ 87,675</u>	<u>\$ 278,141</u>

Contributions receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(5) 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, 2020 and 2019, 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.

Fair value of assets at June 30, 2020 are measured as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 903,089	\$ -	\$ -	\$ 903,089
Cash and cash equivalents	723,455	-	-	723,455
Total	<u>\$ 1,626,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,626,544</u>

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(5) Investments and fair value measurements (continued)

Fair value of assets at June 30, 2019 are measured as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 800,908	\$ -	\$ -	\$ 800,908
Cash and cash equivalents	320,966	-	-	320,966
Total	<u>\$ 1,121,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,121,874</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.

(6) Property and equipment

For the years ended June 30, 2020 and 2019, depreciation expense charged to operations was \$116,305 and \$64,116, respectively.

During the year ended June 30, 2019, AHH capitalized approximately \$17,000 of interest on debt related to the building purchase that was incurred during the construction period for the building improvements and prior to placing the building into service.

	<u>2020</u>	<u>2019</u>
Property and equipment consist of:		
Cost or donated value:		
Land	\$ 720,000	\$ 720,000
Building	1,157,573	1,157,573
Building improvements	1,314,394	1,314,394
Furniture, fixtures and equipment	74,432	71,788
Computer and office equipment	14,307	14,307
Vehicles	91,984	91,984
Software	247,223	163,027
Total cost or donated value	3,619,913	3,533,073
Accumulated depreciation	(244,415)	(125,466)
Net property and equipment	<u>\$ 3,375,498</u>	<u>\$ 3,407,607</u>

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(7) Long-term debt

Long-term debt consists of:

	2020	2019
<p>AHH entered into a \$1.075 million promissory note secured by the AHH facility. The note bears interest at 5.5% and was due to mature on May 30, 2023. Beginning July 1, 2018 AHH was required to make monthly principal and interest payments of \$6,601. AHH was also required to make a one-time principal payment of \$175,000 on or before January 31, 2019. Commencing with the the monthly payment due on or before March 1, 2019, the monthly payment amount is adjusted to \$5,503. AHH made additional payments against the note during 2019 and 2020 and the note was paid in full in January 2020.</p>	\$ -	529,286

In connection with the COVID-19 pandemic, AHH entered into a promissory note (loan) with a financial institution dated April 22, 2020. The loan is through the Small Business Association Federal Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan is in the amount of \$116,300 and bears interest at a rate of 1%. The loan is to be repaid in 18 monthly payments beginning November 22, 2020. The final payment of all outstanding principle and accrued interest is due on April 22, 2022. The loan will be forgiven for all payroll costs, covered mortgage interest, covered rent payments and covered utility payments incurred during the 8 week period beginning the date of the initial disbursement of the loan (April 22, 2020). Not more than 25% of the amount forgiven can be attributable to non-payroll costs. AHH expects to incur sufficient payroll and other covered costs during the specified period to enable the entire principal balance of the loan to be forgiven.

	116,300	-
Total Net Long-Term Debt	116,300	529,286
Less: Current Maturities	(51,688)	(34,632)
Noncurrent Maturities	\$ 64,612	\$ 494,654

Future maturities of long-term are as follows:

Years ended December 31,

2021	\$ 51,688
2022	64,612
Total annual maturities of long-term debt	116,300

See Independent Accountants' Report

ARIZONA HELPING HANDS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(with summarized comparative totals as of June 30, 2019)

(8) Net assets with donor restrictions

Net assets with donor restrictions consist of the following:

	2020	2019
Time restrictions:		
Contributions receivable	\$ 87,675	\$ 278,141
Total net assets with donor restrictions	\$ 87,675	\$ 278,141

Amounts released from restrictions, consist of the following:

	2020	2019
Purpose restrictions:		
Capital Campaign	\$ 250,000	\$ 577,600
Basic needs	112,500	25,000
Back to school	97,544	-
Other	5,912	6,751
Time restrictions:		
Contributions receivable	278,141	20,000
Total net assets released from restrictions	\$ 744,097	\$ 629,351

(10) New accounting pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which modifies the disclosure requirements on fair value measurements in Topic 820. The new standard is effective for AHH July 1, 2020. AHH is evaluating the effect that ASU No. 2018-13 will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires recognition of rights and obligations from lease contracts longer than one year as assets and liabilities on the balance sheet. The new standard is effective for AHH July 1, 2021. AHH is evaluating the effect that ASU No. 2016-02 will have on its financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies how expected credit losses on financial instruments are developed. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses (Topic 326)* which provides amendments to ASU No. 2016-13 and defers the effective date to years beginning after December 15, 2021. The new standards are effective for AHH July 1, 2022. AHH is evaluating the effect that ASU No. 2016-13 and ASU No 2018-19 will have on its financial statements and related disclosures.

See Independent Accountants' Report