

Angel Reach, Inc.
Audited Financial Statements

**For the Year Ended
December 31, 2017**

Angel Reach, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Angel Reach, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Angel Reach, Inc., which comprise the statement of financial position, as of December 31, 2017, the related statement of activities, statement of 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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position Angel Reach, Inc. as of December 31, 2017 and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Brooks Watson & Co.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
June 1, 2018

FINANCIAL STATEMENTS

Angel Reach, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

Assets

Current assets:

| | | |
|-----------------------------|----|---------|
| Cash | \$ | 433,685 |
| Restricted cash | | 50,988 |
| Other receivables | | 2,835 |
| Prepaid expenses | | 12,886 |
| Total Current Assets | | 500,394 |

Noncurrent assets:

| | | |
|------------------------------------|--|-----------|
| Investments | | 449,995 |
| Notes receivable from clients, net | | 8,282 |
| Other assets | | 8,886 |
| Property and equipment, net | | 828,063 |
| Total Noncurrent Assets | | 1,295,226 |

| | | |
|--|---------------------|--------------|
| | Total Assets | \$ 1,795,620 |
|--|---------------------|--------------|

Liabilities

Current liabilities:

| | | |
|----------------------------------|----|--------|
| Payable to clients | \$ | 9,065 |
| Accrued expenses | | 26,084 |
| Credit card liabilities | | 3,265 |
| Notes payable - current | | 8,634 |
| Total Current Liabilities | | 47,048 |

Noncurrent assets:

| | | |
|--|--|---------|
| Notes Payable - net of current portion | | 103,657 |
| Total Noncurrent Liabilities | | 103,657 |

| | | |
|--|--------------------------|------------|
| | Total Liabilities | \$ 150,705 |
|--|--------------------------|------------|

Net Assets

| | | |
|-------------------------|--|-----------|
| Temporarily restricted | | 221,773 |
| Unrestricted | | 1,423,142 |
| Total Net Assets | | 1,644,915 |

| | | |
|--|---|--------------|
| | Total Liabilities and Net Assets | \$ 1,795,620 |
|--|---|--------------|

See Notes to Financial Statements.

Angel Reach, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|---------------------------|---------------------|
| Support & Revenue | | | |
| Contributions: | | | |
| In kind: | | | |
| Property & Equipment | \$ - | \$ 42,088 | \$ 42,088 |
| Services & Gift Cards | - | 14,145 | 14,145 |
| Cash | 280,846 | 91,616 | 372,462 |
| Grant income | 421,114 | 172,023 | 593,137 |
| Special events income | 1,087,997 | - | 1,087,997 |
| Rental income | 21,567 | - | 21,567 |
| Other income | 24,374 | - | 24,374 |
| Net assets released from restrictions | 131,849 | (131,849) | - |
| | 1,967,747 | 188,023 | 2,155,770 |
| Expenses | | | |
| Program services | 1,037,500 | - | 1,037,500 |
| Fundraising | 12,395 | - | 12,395 |
| Management and general | 347,797 | - | 347,797 |
| | 1,397,692 | - | 1,397,692 |
| Change in Net Assets | 570,055 | 188,023 | 758,078 |
| Net assets, beginning of year | 853,087 | 33,750 | 886,837 |
| Net Assets, End of Year | \$ 1,423,142 | \$ 221,773 | \$ 1,644,915 |

See Notes to Financial Statements.

Angel Reach, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

Cash Flows from Operating Activities

| | | |
|--|----|----------------|
| Change in net assets | \$ | 758,078 |
| Adjustments to reconcile to change in net assets to net cash flows from operating activities: | | |
| Depreciation | | 66,005 |
| Bad debt expense | | 12,384 |
| Gain from donation of vehicles | | (37,100) |
| Gain (loss) on disposition of assets | | (10,238) |
| Loss on investments | | 5 |
| Changes in operating assets and liabilities: | | |
| Change in restricted cash | | (1,375) |
| Increase (decrease) in prepaid expenses | | (2,382) |
| Increase (decrease) in other receivables | | (2,835) |
| Increase (decrease) in other assets | | (21) |
| Increase (decrease) notes receivable | | (365) |
| Increase (decrease) in accounts payable and accrued liabilities | | (6,609) |
| Net Cash Provided by Operating Activities | | 775,547 |

Cash Flows from (used by) Investing Activities

| | | |
|--|--|------------------|
| Cash collected for notes receivable | | 20,413 |
| Cash paid for investments | | (450,000) |
| Proceeds from sale of fixed assets | | 4,372 |
| Purchase of fixed assets | | (17,481) |
| Net Cash Used by Investing Activities | | (442,696) |

Cash Flows from (used by) Financing Activities

| | | |
|--|--|----------------|
| Payments on note payable | | (8,765) |
| Net Cash Used by Financing Activities | | (8,765) |

Net Increase in Cash and Cash Equivalents 324,086

Beginning cash and cash equivalents 109,599

Ending Cash and Cash Equivalents **\$ 433,685**

Non-Cash Investing and Financing Activities:

| | | |
|--|----|--------|
| Fixed assets sold for notes receivable | \$ | 23,898 |
|--|----|--------|

See Notes to Financial Statements.

Angel Reach, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

| | <u>Program Services</u> | <u>Management & General</u> | <u>Fundraising</u> | <u>Total</u> |
|-----------------------------|-----------------------------|-------------------------------------|--------------------|---------------------|
| Wages | \$ 518,358 | \$ 125,747 | \$ 6,450 | \$ 650,555 |
| Outside services | 491 | 3,150 | - | 3,641 |
| In-Kind services | - | 10,560 | - | 10,560 |
| In-Kind Donation | - | 149,668 | - | 149,668 |
| Client services | 148,467 | 338 | - | 148,804 |
| Program administration | 8,143 | 9,826 | 5,550 | 23,519 |
| Accounting fees | - | 7,000 | - | 7,000 |
| Depreciation | 60,769 | 5,236 | - | 66,005 |
| Rent & utilities | 169,744 | 392 | - | 170,136 |
| Transporation & vehicles | 43,045 | 5,337 | - | 48,382 |
| Insurance | 42,162 | 6,972 | 126 | 49,260 |
| Repairs & maintenance | 38,703 | 880 | - | 39,583 |
| Promotion | - | - | 270 | 270 |
| Meals & entertainment | 17 | - | - | 17 |
| Training | 2,131 | 75 | - | 2,206 |
| Miscellaneous | 5,471 | 12,925 | - | 18,396 |
| Total Expenses | <u>\$ 1,037,500</u> | <u>\$ 347,797</u> | <u>\$ 12,395</u> | <u>\$ 1,397,692</u> |

See Notes to Financial Statements.

Angel Reach, Inc.

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

December 31, 2017

Note 1 – Nature of Activity

Angel Reach, Inc. (the Organization) is a 501(c)3 public charity non-profit corporation. The Organization was incorporated in May 2007 for the purpose of providing support services to foster children, their caregivers and to youth who have been emancipated from the state foster system. The Organization operates within Montgomery County, Texas.

The goal of Angel Reach is to help children and youth achieve their full potential in spite of the obstacles placed on them by broken families and a broken system. The Organization is governed by a Board of Directors and generates income and revenue through individual and corporate donations and grants.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting, as it is required by generally accepted accounting principles. Revenues are recorded when earned, and expenses are recorded when incurred.

Financial Statement Presentation

The Organization presents its financial statements in accordance with the Accounting Standards Codification (“ASC”) No. 958, Financial Statements of Not-for-Profit Organizations. Under ASC No. 958, the Organization 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.

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted – Net assets whose use is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. All donor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction lapses 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.

Permanently Restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. The Organization does not have any permanently restricted net assets as of December 31, 2017.

Budgetary Control

The Organization has established its fiscal year as the twelve-month period beginning January 1. The Organization's Executive Director and Board of Directors estimate expenditures for the ensuing fiscal year after which the Board of Directors Treasurer submits a budget of estimated expenditures and revenues to the entire Board for review and discussion. The budget is then authorized by a motion and majority vote of the Board. The Board is authorized to transfer budgeted amounts between line items; however, any revisions that alter the total expenditures of the budget must be approved by the Board. Budgeted amounts are as originally adopted or as amended by the Board.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that may affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the lives of fixed assets, fair values used to record in-kind contributions, the functional allocation of expenses, and contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Adjustments to such estimates and assumptions are made when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash on hand, demand bank deposits, and highly liquid investments available for current use with an initial maturity of three months or less to be defined as cash and cash equivalents.

Investments

The Organization has investments within a brokerage account which is primarily composed of mutual funds that are reported at fair value, which is defined as the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Unrealized gains and losses, arising from increases or decreases in the current market values from the beginning of the year to the end of the year, are presented in the statement of activities, along with gains and losses realized on sales of investments. Purchases and sales of investments are recorded on the trade date. Interest income and income from other investments is recorded on the accrual basis. Total unrealized losses arising from these investments totaled \$5 for the year ended December 31, 2017.

Financial Instruments

The carrying values of the Organization's financial instruments approximate their fair values as of December 31, 2017.

Notes Receivable

The Organization assists their clients with vehicle purchasing by facilitating the transaction with the auto dealership. The Organization recognizes a receivable from each client for the amount paid to the dealership. The client repays the receivable in monthly installment payments, including principal and interest. The Organization provides an allowance for doubtful collections, which is based upon review of outstanding receivable and historical collection information.

Custodial Credit Risk

In the case of bank deposits, custodial credit risk is the risk that in the event of a bank failure, the Organization's bank deposits, whose balances exceed the insurance coverage guaranteed by the Federal Deposit Insurance Corporation (FDIC), which was \$250,000 for 2016, may not be returned to it. The Organization bank deposits amounted to \$939,484 at one banking institution, which is \$689,484 over the FDIC limits.

Contributions

The Organization accounts for contributions in accordance with recommendations of ASC 958. In accordance with ASC 958, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, 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 materials and equipment are reflected as contributions in the accompanying statements at their estimated values as of the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. The Organization recognizes donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation.

The value of other donated services is not reflected in the accompanying financial statements, as there is no objective basis available to measure the value of such services. However, a substantial number of volunteers, including the Board of Directors, have donated significant amounts of their time in the Organization's efforts.

Fixed Assets and Depreciation

All asset purchases are recorded at cost when purchased. Donated assets are recorded at fair market value on the date acquired. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized. Provisions for depreciation on all fixed assets are determined over the estimated useful lives of the respective assets on a straight-line basis. Assets with a useful life over one year and a cost over \$1,000 are capitalized and depreciated.

Functional Expenses

As required by ASC 958, the Organization presents its expenses according to their functional classification on the statement of activities. Functional expenses presented include program services, which encompass expenses related to the fulfillment of the purpose, and mission for which the Organization exists, and supporting services and administration, which include all activities not considered program services.

General management activities are considered supporting services.

The statement of functional expenses, also required by ASC 958, presents the Organization's expenses in further detail, displaying expenses according to both functional classification and account.

Income Tax

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Organization is not required to pay income taxes.

Note 3 – Restricted Cash

For the year ended December 31, 2017, all of the Organization's deposits were cash held in bank demand deposit checking or savings accounts. The cash contributions that are donated to the Organization for a specific purpose are classified as restricted. As of December 31, 2017, the Organization had a total of \$50,988 in restricted cash. The balance of \$41,774 relates to contributions as of December 31, 2017 which will be used in the subsequent fiscal year on other specific programs, as directed by the donors. The remaining \$9,214 is held on behalf of clients as savings to be repaid upon request of the clients. This balance is offset with a payable to clients of \$9,065 on the December 31, 2017 balance sheet.

Note 4 - Deposits & Investments

For the year ending December 31, 2017, all of the Organization's deposits were cash held in bank demand deposit checking or savings accounts, which are subject to custodial credit risk. The Organization has no investments and as such is not exposed to interest rate risk or other investment-related risks.

Note 5 – Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Valuation is based upon unadjusted quoted market prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable in the market.

Level 3 – Valuation is based on models where significant inputs are not observable. The unobservable inputs reflect the Foundation’s own assumptions about the inputs that market participants would use.

The Organization’s financial instruments consist of cash, restricted cash, other receivable, investments, notes receivable from clients, payable to clients, accrued expenses, and credit card liabilities. The estimated fair value of cash, restricted cash, other receivable, notes receivable from clients, payable to clients, accrued expenses, and credit card liabilities approximates their carrying amounts due to the short-term nature of these instruments.

In addition, the Organization has investments in a mutual fund held within a brokerage account.

The following table sets forth by level, within the fair value hierarchy, the Organization’s fair value measurements at December 31, 2017.

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|-----------|---------|---------|-----------|
| Mutual fund investments | \$449,995 | - | - | \$449,995 |
| Total | \$449,995 | - | - | \$449,995 |

Total unrealized losses arising from this investment totaled \$5 for the year ended December 31, 2017.

Note 6 – Temporarily Restricted Net Assets

The balance of temporarily restricted net assets of \$221,773 is available as of December 31, 2017 for use as directed. The balance will be used in the subsequent fiscal year on other specific programs, as directed by the donors.

| Program Description | Balance 12/31/2017 |
|--|-------------------------------|
| Vanguard Charity | \$ 2,883 |
| Ibarra Kinship Family | 165 |
| Always Pursue | 16,933 |
| Flooring Repair | 2,977 |
| Mentor Events | 425 |
| 9th Street Housing | 180,000 |
| Mrs. Clause Program | 2,440 |
| Ticket to Dream Foundation | 5,178 |
| Kinship Wheelchair Drive | 275 |
| Easter Baskets | 465 |
| Necessity Baskets | 100 |
| Foster Success Boot Camp | 6,332 |
| Kinship Cart | 100 |
| Mary Aperauch | 3,000 |
| Winter Clothing | 500 |
| Total Temporarily Restricted Assets | <u><u>221,773</u></u> |

Note 7 – Notes Receivable from Clients

The Organization assists their clients with vehicle purchasing by facilitating the transaction with the auto dealership. The Organization draws from its line of credit (see Note 8) to purchase each vehicle. The Organization recognizes a receivable from each client for the amount paid to the dealership. The client repays the receivable in monthly installment payments, including principal and interest. As of December 31, 2017, the gross amount due from clients as part of the Organization's vehicle purchasing program was \$17,973. An allowance for uncollectible notes receivable of \$9,691 was recorded as of yearend. All notes receivable with clients are under a two year agreement with repayment ranging from January 2017 through December 2019.

Note 8 – Property and Equipment

Fixed assets and related accumulated depreciation expense as of December 31, 2017, are as follows:

| | |
|-------------------------------|--------------------------|
| Buildings | \$ 640,064 |
| Land (not depreciated) | 180,142 |
| Vehicles | 116,873 |
| Equipment | 36,357 |
| Total Fixed Assets | <u><u>973,436</u></u> |
| Less Accumulated Depreciation | (145,373) |
| Net Fixed Assets | <u><u>\$ 828,063</u></u> |

Depreciation expense for the year ended December 31, 2017 was \$66,005.

Note 9 – Line of Credit

The Organization opened a line of credit with a banking institution on April 25, 2014. The maximum line is \$100,000 and maintains an interest rate of 3.25%. Interest payments are to be paid monthly. The Organization can draw from the line as needed. The lender may demand full immediate repayment at any time. No draws were made on the line during fiscal year 2017. No principal payments were made during the current year. The line of credit is available through May 5, 2018.

Note 10 – Notes Payable

During 2016, the Organization obtained a \$120,000 mortgage to purchase property to be repaid in monthly installments. The term of the mortgage is 5 years with a balloon payment at maturity in 2021 for the remaining principal balance owed and an interest rate of 4.00%. Total principal payments of \$6,185 were paid during 2017. This note is collateralized by the property purchased with the debt proceeds.

During 2015, the Organization entered into an installment sale agreement related to a fixed asset purchase. A total of \$10,178 is to be repaid in equal monthly installments over four years. Total payments of \$2,580 were paid during 2017. This note is collateralized by the equipment purchased with the debt proceeds.

Future payments for these notes payable are as follows:

| Date | Principal | Interest |
|--------------|-------------------|------------------|
| 12/31/2018 | \$ 8,634 | \$ 4,220 |
| 12/31/2019 | 7,675 | 3,975 |
| 12/31/2020 | 6,285 | 3,736 |
| 12/31/2021 | 89,697 | 305 |
| Total | \$ 112,291 | \$ 12,236 |

Note 11 – Income Tax Status

The Organization applied for and received a tax determination letter from the Internal Revenue Service, which exempted the Organization from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization did not conduct unrelated business activities. The Organization is not required to pay income taxes and has made no provision for federal income taxes in the accompanying financial statements. The Organization's federal tax returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Support and donations received are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization not organized for profit but operated exclusively for the promotion of the social welfare of the individuals served and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Note 12 - Risk Management

The Organization uses a number of approaches to decrease risks and protect against losses to the Organization, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge.

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injury and death; and natural disasters for which the Organization purchases commercial insurance. The Organization has no additional risk or responsibility outside of the payment of insurance premiums. The Organization has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past several years.

Note 13 – New Accounting Pronouncements

In August of 2016 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14 “Presentation of Financial Statements of Not-for-Profit Entities”. This standard modifies the presentation of the different classes of net assets on the statement of financial position, reduces disclosure requirements in the statement of cash flows when using the direct method, and enhances disclosures covering management, operating results, and liquidity. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. This update will impact the Organization’s financial reporting presentation beginning in the fiscal year ending December 31, 2018.

Note 14 – Concentration Risk

During fiscal year ended December 31, 2017, approximately \$233,438 or 11% of total support and revenue was received from one grantor.

Note 15 – Subsequent Events

There were no material subsequent events through June 1, 2018, the date the financial statements were available to be issued.