ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

Consolidated Financial Statements
and Consolidating Information
For the Year Ended
August 31, 2018
with
Independent Auditors' Report

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
All Hands and Hearts Smart Response, Inc. and Affiliate
Mattapoisett, Massachusetts

We have audited the accompanying consolidated financial statements of All Hands and Hearts Smart Response, Inc. and Affiliate ("non-profit organizations"), which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of All Hands and Hearts Smart Response, Inc. and Affiliate as of August 31, 2018, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 12-13 and the combining information included on page 14 is presented for purposes of additional analysis of the basic 2018 consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2018 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 consolidated financial statements or to the 2018 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

Clugston Travis Besaw & Kearl LLP

March 20, 2019

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

Cash and cash equivalents	$ 12,406,467
Investments	2,168,148
Accounts receivable	278,902
Prepaid expenses	202,591
Property and equipment, net	309,478
Other assets, net	4,628
	$ 15,370,214

LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable and accrued expenses	$ 981,173
NET ASSETS:	
Unrestricted net assets	7,295,790
Temporarily restricted net assets	7,093,251
	14,389,041
	$ 15,370,214

See notes to consolidated financial statements.

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT:			
Contributions	$ 3,881,515	$ 12,763,250	$ 16,644,765
Grants	-	6,566,199	6,566,199
Special events, net of $320,052 of fundraising expenses	514,860	-	514,860
Other income	32,847	-	32,847
Investment income	535,246	-	535,246
Net assets released from restrictions	14,249,383	(14,249,383)	-
TOTAL REVENUE AND OTHER SUPPORT	19,213,851	5,080,066	24,293,917
EXPENSES:			
Program expenses	15,059,850	-	15,059,850
Management and general expenses	446,857	-	446,857
Fundraising expenses	195,391	-	195,391
TOTAL EXPENSES	15,702,098	-	15,702,098
CHANGE IN NET ASSETS BEFORE CHANGE IN FOREIGN CURRENCY TRANSLATION	3,511,753	5,080,066	8,591,819
CHANGE IN FOREIGN CURRENCY TRANSLATION	(1,841)	-	(1,841)
CHANGES IN NET ASSETS	3,509,912	5,080,066	8,589,978
NET ASSETS, beginning of year	3,785,878	2,013,185	5,799,063
NET ASSETS, end of year	$ 7,295,790	$ 7,093,251	$ 14,389,041

See notes to consolidated financial statements.

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	Program	Management and General	Fundraising	Total
Salary expense	$ 2,312,847	$ 183,348	$ 115,842	$ 2,612,037
Outside services	3,409,408	105,579	23,079	3,538,066
Disaster relief supplies and expenses	3,251,133	2,597	1,475	3,255,205
Rent and occupancy related expenses	1,824,775	17,893	2,411	1,845,079
Travel	1,184,080	30,081	6,795	1,220,956
Volunteer support	795,733	861	181	796,775
Insurance	175,462	5,567	1,281	182,310
Stipends/professional fees	258,899	18,388	1,410	278,697
Depreciation and amortization	170,482	328	137	170,947
Office expense	652,152	12,995	2,054	667,201
Payroll taxes and benefits	233,587	19,862	9,600	263,049
Website	380,238	28,628	16,788	425,654
Telephone	140,973	6,615	930	148,518
Advertising	1,955	-	250	2,205
Printing	17,726	3,632	128	21,486
Dues and subscriptions	14,558	1,953	-	16,511
Staff development	1,887	337	-	2,224
Bank and credit card fees	216,649	5,677	2,315	224,641
Fundraising	-	-	8,208	8,208
Miscellaneous	16,768	2,500	2,500	21,768
Interest expense	538	16	7	561
	$ 15,059,850	$ 446,857	$ 195,391	$ 15,702,098

See notes to consolidated financial statements.

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 8,589,978
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	170,947
Net unrealized and realized gain on investments	(409,910)
Loss on sale of property and equipment	3,139
Donated securities	(1,688)
Proceeds from sale of donated securities	4,001
Changes in operating assets and liabilities:	
Accounts receivable	744,659
Prepaid expenses	(123,542)
Other assets	7,250
Accounts payable and accrued expenses	784,806
Net cash provided by operating activities	9,769,640
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the sale of investments	177,340
Purchases of investments	(76,275)
Purchases of property and equipment	(415,827)
Proceeds from sale of property and equipment	4,449
Net cash used in investing activities	(310,313)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,459,327
CASH AND CASH EQUIVALENTS:	
Beginning of year	2,947,140
End of year	$ 12,406,467

See notes to consolidated financial statements.

1. ORGANIZATION MERGE

On September 1, 2017 All Hands Volunteers, Inc. and Happy Hearts Fund, Inc. merged to form a new organization; All Hands and Hearts Smart Response, Inc. ("All Hands"). All Hands Volunteers, Inc. worked to address immediate and long-term needs of international communities impacted by natural disasters. Happy Hearts Fund, Inc. worked to rebuild safe, resilient schools in international areas impacted by natural disasters. The primary reason for the merger was to utilize synergies among their respective organizations and maximize the impact of their respective missions. The combined assets and liabilities of each Organization as of September 1, 2017 is presented on page 14 of the consolidated financial statements.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – All Hands and Hearts Smart Response, Inc. and Affiliate (collectively the "Organization") is a non-profit corporation incorporated in the Commonwealth of Massachusetts, whose mission is to efficiently and effectively address the immediate and long-term needs of communities impacted by natural disasters. The Organization rebuilds safe, resilient schools, homes and other community infrastructure.

Principles of Consolidation – The consolidated financial statements include the accounts of All Hands and its affiliate, All Hands Volunteers (UK) Trust (the "Trust"). On January 8, 2019, the Trust's name was changed to All Hands and Hearts (UK) Trust. The Trust is a non-profit organization formed in the United Kingdom, whose purpose is to solicit funds on behalf of All Hands. Amounts received by the Trust are distributed periodically to All Hands at the discretion of the Trust's Board of Trustees. Additionally, the majority of the voting members of the Trust are also voting members of All Hands. All intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation – All Hands translates the assets and liabilities of the Affiliate from their functional currency, British Pound, at the year-end exchange rate; revenue, expenditures, and cash flow amounts are converted at the average exchange rate for the year. Translation gains and losses are included in unrestricted net assets in the accompanying consolidated statement of financial position.

Basis of Accounting – The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and according to current accounting standards, which require that all non-profit organizations provide a statement of financial position, a statement of activities, a statement of cash flows and a statement of functional expenses. Classification of net assets and revenues, expenses, gains and losses is based on the existence or absence of donor-imposed restrictions. The standards also require that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted and unrestricted – be displayed in a consolidated statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a consolidated statement of activities. All Hands did not have any permanently restricted net assets at August 31, 2018.

Cash and Cash Equivalents – Cash and cash equivalents represent savings accounts, money market accounts and demand deposits with several financial institutions. For the purpose of the consolidated statements of cash flows, the Organization consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Organization maintain its cash balances at several banks, which, at times, may exceed insured limits, potentially subjecting the Organization to concentrations of credit risk. The Organizations' management believes it is not exposed to any significant credit risk with respect to its cash and cash equivalents.

Accounts Receivable – Management considers all accounts receivable outstanding for greater than the specified term to be past due, and uses factors such as donor history and existing economic conditions to determine the likelihood of collection and whether to establish an allowance for doubtful accounts. Accordingly, management periodically reviews outstanding accounts and charges operations for amounts deemed uncollectible. All Hands writes off accounts receivable against the allowance when amounts are considered to be uncollectible. At August 31, 2018, management has determined that all accounts receivable are collectible and an allowance for doubtful accounts was not considered necessary.

Investments – Investments in marketable securities with readily determinable fair values are reported at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in changes in net assets. Donated investments are included in contributions at their fair values on the date of receipt.

Generally accepted accounting principles establish a hierarchy for the determination of fair value, as well as disclosure requirements relative to those assets and liabilities. The hierarchy identifies three levels of input. Level 1 inputs are generally quoted market prices for identical assets or liabilities, which are actively traded on an exchange. Level 2 inputs generally consist of market prices for identical assets which are not actively traded or market prices of similar assets or liabilities which are actively traded, on an exchange. Level 3 inputs are referred to as unobservable inputs and consist primarily of information derived by management where Level 1 and Level 2 inputs are not available.

Property and Equipment – Property and equipment is stated at cost at the date of acquisition or, if donated, at the approximate fair value at the date of the donation. Depreciation is provided by using the straight line method over the estimated useful lives of the related assets (2 - 7 years) for consolidated financial statement purposes. Maintenance and repairs are charged to operations as incurred; significant renewals and betterments that materially extend the life of the assets, are capitalized.

Recent Accounting Standards Issued – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14 "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." ASU 2016-14 contains several provisions that change the presentation of and disclosures within the financial statements of a not-for-profit entity. These changes include an updated net asset classification scheme from three classes to two classes, changes in underwater endowment accounting, quantitative and qualitative disclosures regarding liquidity, a change in presentation of investment return to a net basis and a requirement to report expenses by function, nature, and an analysis showing the relationship between function and nature and the removal of the requirement for a reconciliation for statements of cash flows done on a direct basis.

The guidance is effective for fiscal years beginning after December 15, 2017, and will be implemented by the Organization during the year ending August 31, 2019.

Income Taxes – All Hands qualifies as an organization exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, and therefore, has no provision for income taxes. In addition, All Hands qualifies for the charitable contribution deduction under Section 170(b)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Additionally, All Hands and Hearts (UK) Trust is in compliance with all required filings in their respective country.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions – Contributions received are measured at their fair values and are reported as an increase in net assets in the period received. The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the contributed assets. When a donor 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 consolidated statement of activities and changes in net assets as net assets released from restrictions. Temporarily restricted net assets represent contributions received for the victims of natural disasters which have not been expended as of August 31, 2018.

Grants – Grants are recognized when a donor makes a promise to the Organization that is, in substance, unconditional. Grants are reported as increases in temporarily restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services – All Hands partners with other organizations that provide building materials or funds for supplies. All Hands also receives a substantial amount of services donated by their own volunteers and project managers. Volunteers on deployment for All Hands are unpaid, and are responsible for their own transportation expenses, except as noted in the following paragraph. No amounts have been reflected in the consolidated financial statements for these services, since no objective basis is available to measure their value.

Volunteers on deployment for All Hands who are deemed to provide a specific skill set and commit their time for an extended period may be entitled to receive a stipend. These costs are included in volunteer support or stipends/professional fees in the accompanying consolidated statement of functional expenses.

Additionally, in-kind donations for the year ended August 31, 2018, primarily consist of transportation services for staff and volunteers on the United States and Caribbean programs, legal services in support of the various programs and merger, and donated equipment and materials to support housing and school rebuilding efforts. These in-kind donations are recorded in the consolidated financial statements when they are specifically identifiable and can be objectively valued. Included in the contributions revenue for the year ended August 31, 2018 is approximately $1,599,000 of in-kind donations.

Advertising – Advertising costs are expensed in the period in which the advertising takes place. Advertising expense for the year ended August 31, 2018 was approximately $2,200.

Subsequent Events – Management of the Organization has evaluated the effects of all subsequent events through March 20, 2019, the date the consolidated financial statements were available to be issued, to determine if events or transactions occurring through that date require potential adjustment or disclosure in the consolidated financial statements.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of August 31, 2018:

	2018
Vehicles	$ 572,369
Furniture and fixtures	86,514
Construction in process	79,000
	737,883
Less accumulated depreciation	428,405
	$ 309,478

Depreciation expense for the year ended August 31, 2018 was $170,269.

4. INVESTMENTS

Investments are stated at fair value and consist of marketable securities and mutual funds held by J.P. Morgan Securities. The marketable securities are recorded at fair value based on quoted market prices (Level 1). Investments consisted of the following at August 31, 2018:

	2018
Level 1:	
Equities	$ 2,168,148
Investment income gains:	
Interest and dividends, net	$ 125,336
Net realized and unrealized gains	409,910
	$ 535,246

Current accounting standards require that impaired investments, that is, investments for which the fair value is less than its cost, be evaluated as to whether such impairment is other than temporary. Since All Hands has the ability and the intent to hold the securities until a recovery in value occurs (or until maturity if necessary), no investments have been deemed impaired as of August 31, 2018.

5. DEMAND NOTE PAYABLE

All Hands has an agreement with a bank for a revolving line of credit for working capital purposes, providing for borrowings up to $250,000 with interest payable at the bank's base rate plus .5% with a floor of 4.5% (4.75% at August 31, 2018). Borrowings are secured by substantially all assets of All Hands. Interest on the outstanding principal balance of the loan must be paid monthly. The outstanding principal balance is due on demand and is subject to an annual review by the bank. There were no outstanding amounts under this agreement as of August 31, 2018.

6. RETIREMENT PLAN

All Hands sponsors a defined contribution pension plan (the "Plan") in accordance with Internal Revenue Code Section 403(b) for all employees meeting certain employment requirements. For each participant who contributes under the Plan, All Hands will contribute a matching contribution of 100% of deferrals, not to exceed 4% of compensation. All employees of All Hands are eligible for participation after meeting certain age and service requirements. All Hands contributed approximately $32,000 to the Plan, for the year ended August 31, 2018, which is reflected in salary expense on the accompanying consolidated statement of functional expenses.

7. OPERATING LEASES

All Hands leases office space for its main office under two non-cancelable operating leases expiring in August 2020. All Hands entered into a new lease for a warehouse in August 2018 that runs through August 2019. Further, All Hands rents office space in NYC and Texas which expire in September 2018 and February 2019, respectively. All Hands had a lease in Nepal for office and living space beginning May 2017, which expired May 2018. All Hands also leases office space and vehicles in areas affected by disasters under terms of month to month lease agreements. Rental expense for these leases totaled approximately $1,845,000 for the year ended August 31, 2018. Future minimum lease payments for the years subsequent to August 31, 2018 are approximately; 2019 - $56,800 and 2020 - $8,400.

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ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

	Total	Eliminations	All Hands and Hearts Smart Response, Inc.	All Hands and Hearts (UK) Trust
ASSETS				
Cash and cash equivalents	$ 12,406,467	$ -	$ 12,333,497	$ 72,970
Investments	2,168,148	-	2,168,148	-
Accounts receivable	278,902	-	278,902	-
Prepaid expenses	202,591	-	202,591	-
Property and equipment, net	309,478	-	309,478	-
Other assets, net	4,628	-	4,628	-
	$ 15,370,214	$ -	$ 15,297,244	$ 72,970
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 981,173	$ -	$ 981,173	$ -
NET ASSETS:				
Unrestricted net assets	7,295,790	-	7,222,820	72,970
Temporarily restricted net assets	7,093,251	-	7,093,251	-
	14,389,041	-	14,316,071	72,970
	$ 15,370,214	$ -	$ 15,297,244	$ 72,970

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2018

	Total	Eliminations	All Hands and Hearts Smart Response, Inc.	All Hands and Hearts (UK) Trust
REVENUE AND OTHER SUPPORT:				
Contributions	$ 16,644,765	$ -	$ 16,466,299	$ 178,466
Grants	6,566,199	(127,625)	6,693,824	-
Special events, net of $320,052 fundraising expenses	514,860	-	514,860	-
Other income	32,847	-	32,847	-
Investment income	535,246	-	535,246	-
TOTAL REVENUE AND OTHER SUPPORT	24,293,917	(127,625)	24,243,076	178,466
EXPENSES:				
Program expenses	15,059,850	(127,625)	15,072,325	115,150
Management and general expenses	446,857	-	446,857	-
Fundraising expenses	195,391	-	187,242	8,149
TOTAL EXPENSES	15,702,098	(127,625)	15,706,424	123,299
CHANGE IN NET ASSETS BEFORE CHANGE IN FOREIGN CURRENCY TRANSLATION	8,591,819	-	8,536,652	55,167
CHANGE IN FOREIGN CURRENCY TRANSLATION	(1,841)	-	-	(1,841)
CHANGES IN NET ASSETS	8,589,978	-	8,536,652	53,326
NET ASSETS, beginning of year	5,799,063	-	5,779,419	19,644
NET ASSETS, end of year	$ 14,389,041	$ -	$ 14,316,071	$ 72,970

ALL HANDS AND HEARTS SMART RESPONSE, INC. AND AFFILIATE

COMBINING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 1, 2017

	All Hands Volunteers, Inc. & Affiliate	Happy Hearts Fund, Inc.	Total
ASSETS			
Cash and cash equivalents	$ 630,642	$ 2,316,498	$ 2,947,140
Accounts receivable	667,861	355,700	1,023,561
Prepaid expenses	79,049	-	79,049
Investments	1,834,009	27,607	1,861,616
Property and equipment, net	69,570	1,938	71,508
Other assets, net	5,306	7,250	12,556
	$ 3,286,437	$ 2,708,993	$ 5,995,430
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable and accrued expenses	$ 152,327	$ 44,040	$ 196,367
NET ASSETS:			
Unrestricted net assets	1,678,706	2,107,172	3,785,878
Temporarily restricted net assets	1,455,404	557,781	2,013,185
	3,134,110	2,664,953	5,799,063
	$ 3,286,437	$ 2,708,993	$ 5,995,430