



Homeless Youth Connection, Inc.
Financial Statements
for the Year Ended June 30, 2020

HOMLESS YOUTH CONNECTION, INC.
YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Homeless Youth Connection, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Homeless Youth Connection, Inc. which comprise the statement 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

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 financial position of the Homeless Youth Connection, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Homeless Youth Connection, Inc.'s 2019 financial statements, and our report dated September 27, 2019, expressed an unmodified opinion on those audited financial statements. In our 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.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

September 17, 2020

HOMELESS YOUTH CONNECTION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

<u>Assets</u>	2020	2019
Cash and cash equivalents	\$ 805,787	\$ 328,469
Contributions receivable	12,500	75,000
Government grants receivable		47,250
Donated inventory	27,613	76,099
Deposits	4,556	4,556
Prepaid expenses	2,423	2,426
Property and equipment, net	1,861	
Total assets	<u>\$ 854,740</u>	<u>\$ 533,800</u>
<u>Liabilities</u>		
Accounts payable	\$ 11,006	\$ 1,237
Accrued payroll	30,820	21,727
Refundable advance	81,713	
Total liabilities	<u>123,539</u>	<u>22,964</u>
<u>Net assets</u>		
Without donor restrictions:		
Undesignated	658,701	419,942
With donor restrictions:		
Time restricted	60,000	75,000
Purpose restricted	<u>12,500</u>	<u>15,894</u>
Total net assets	<u>731,201</u>	<u>510,836</u>
Total liabilities and net assets	<u>\$ 854,740</u>	<u>\$ 533,800</u>

See accompanying notes to financial statements.

HOMELESS YOUTH CONNECTION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
Revenue, support, and gains:				
Contributions	\$ 933,963	\$ 272,500	\$ 1,206,463	\$ 1,043,322
Contributions - in kind	369,742		369,742	308,193
PPP loan forgiveness	119,761		119,761	
Government grants	131,067		131,067	194,415
Interest and dividends	15		15	16
Other income	50		50	35
Net assets released from restrictions	290,894	(290,894)		
Total revenue, support, and gains	<u>1,845,492</u>	<u>(18,394)</u>	<u>1,827,098</u>	<u>1,545,981</u>
 Expenses and losses:				
Program services	<u>1,356,954</u>	<u></u>	<u>1,356,954</u>	<u>1,033,717</u>
Total program expenses	<u>1,356,954</u>	<u></u>	<u>1,356,954</u>	<u>1,033,717</u>
Supporting services				
Management and general	108,850		108,850	47,142
Fundraising	<u>140,929</u>	<u></u>	<u>140,929</u>	<u>102,020</u>
Total supporting services	<u>249,779</u>	<u></u>	<u>249,779</u>	<u>149,162</u>
Total expenses and losses	1,606,733		1,606,733	1,182,879
 Change in net assets	238,759	(18,394)	220,365	363,102
 Net assets, beginning of year	<u>419,942</u>	<u>90,894</u>	<u>510,836</u>	<u>147,734</u>
 Net assets, end of year	<u>\$ 658,701</u>	<u>\$ 72,500</u>	<u>\$ 731,201</u>	<u>\$ 510,836</u>

See accompanying notes to financial statements.

HOMELESS YOUTH CONNECTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Program Services	Supporting Services		Totals	
		Management and General	Fundraising	2020	2019
Salaries and wages	\$ 567,636	57,482	93,408	\$ 718,526	\$ 515,183
Payroll taxes	43,278	4,383	7,122	54,783	39,769
Employee benefits	27,506	2,785	4,526	34,817	14,321
Staff expenses	36,252	3,671	5,965	45,888	48,485
Youth empowerment services	554,810			554,810	383,439
Facilities costs	48,309	4,892	7,950	61,151	67,351
Accounting and tax services		25,285		25,285	17,421
Advertising and promotion	3,677	460	460	4,597	2,996
Bank charges		1,447	1,447	2,894	5,339
Meetings, conventions, etc.	390	974	584	1,948	3,050
Dues and subscriptions	327	1,308		1,635	2,765
Insurance - Officers and Directors	18,119		3,197	21,316	20,922
Information technology	20,795	2,446	1,223	24,464	7,069
Supplies and equipment	7,252	907	907	9,066	7,978
Postage and printing	17,222	2,153	2,153	21,528	15,875
Depreciation		465		465	
Travel			7,974	7,974	12,329
Other	11,381	192	4,013	15,586	18,587
Total expenses	\$ <u>1,356,954</u>	\$ <u>108,850</u>	\$ <u>140,929</u>	\$ <u>1,606,733</u>	\$ <u>1,182,879</u>

See accompanying notes to financial statements.

HOMELESS YOUTH CONNECTION, INC.
STATEMENT OF CASH FLOWS
FOR THE 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	\$ 220,365	\$ 363,102
Adjustments to reconcile change in net assets to net cash provided by/used for operating activities:		
Depreciation expense	465	
Changes in assets and liabilities:		
Contributions receivable	62,500	(75,000)
Government grants receivable	47,250	(47,250)
Donated inventory	48,486	(35,731)
Prepaid expenses	3	(1,226)
Accounts payable	9,769	(4,177)
Accrued payroll	9,093	2,270
Refundable advance	81,713	
Net cash provided by/used for operating activities	479,644	201,988
Cash flows from investing activities:		
Purchase of equipment	(2,326)	
Net cash provided by/used for investing activities	(2,326)	
Net increase/decrease in cash and cash equivalents	477,318	201,988
Cash and cash equivalents, beginning of year	328,469	126,481
Cash and cash equivalents, end of year	\$ 805,787	\$ 328,469

See accompanying notes to financial statements.

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Homeless Youth Connection, Inc. (HYC) is an Arizona nonprofit organization. HYC was formed in 2010. In partnership with the community, HYC raises awareness and meets the needs of homeless youth so they can stay in school and graduate. The majority of HYC's efforts are made possible through contributions.

Basis of Accounting

The financial statements of HYC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements of HYC have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. HYC is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HYC and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of HYC and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Comparative Financial 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the HYC's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, HYC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose HYC to concentrations of credit and market risk consist primarily of cash equivalents. HYC maintains its cash and cash equivalents in bank deposit accounts. The Federal Deposit Insurance Corporation (FDIC) insures \$250,000 for substantially all depository accounts. For short periods of time, HYC's deposits may exceed FDIC limits. At year end, the carrying amount of HYC's deposits was \$805,787 and the bank balance was \$810,675. At year end, \$492,182 of the HYC's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution.

Contributions Receivable

HYC recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Unconditional promises to give that are expected to be collected in less than one year and are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts. All contributions receivable at June 30, 2020 are expected to be collected in less than one year.

Government Grants Receivable

Government grants receivable consists of amounts due from the federal government. Government grants receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and Equipment

All acquisitions of property and equipment with a cost in excess of \$1,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets which is five years for furniture and equipment. Leasehold improvements, if any, are amortized over the term of the lease agreement. Depreciation expense for the current fiscal year was \$465.

Compensated Absences

Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is HYC's policy to recognize the cost of compensated absence when leave is earned by employees.

Donated Services and In-Kind Contributions

Donations of property and equipment and Teen Exchange inventory are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to 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 increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, HYC reports expirations of donor restrictions when the donated or acquired assets are placed in service. HYC reclassifies net assets with donor restrictions to net assets without restrictions at that time.

HYC operates a social enterprise known as Teen Exchange. Teen Exchange is an inventory of donated non-cash goods where homeless teens can shop free of charge for clothing, backpacks, toiletries and similar merchandise. Donated inventory not suitable for teen use is utilized at fundraising events.

Volunteers contribute significant amounts of time to HYC's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages, payroll taxes, employee benefits and staff expenses	Time and effort
Facilities costs	Time and effort

Advertising

HYC uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled \$4,597.

Income Tax Status

HYC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. In addition, HYC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). HYC’s Form 990, *Return of Organization Exempt from Income Taxes*, is generally subject to examination by the Internal Revenue Service for three years after the date filed.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

New Accounting Pronouncement

During the fiscal year, HYC adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The update clarifies and improves the scope and accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

Analysis of the provisions of this standard resulted in no significant changes in the way HYC recognizes revenue, and therefore no changes to the previously issued audited statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Date of Management’s Review

In preparing these financial statements, HYC has evaluated events and transactions for potential recognition or disclosure through September 17, 2020, which is the date the financial statements were available to be issued.

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following represents HYC’s financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	\$ 805,787
Contributions receivable	<u>12,500</u>
Total financial assets	<u>818,287</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	72,500
Less: Net assets with time and purpose restrictions to be met in less than a year	<u>(72,500)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 818,287</u>

HYC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. HYC’s goal is generally to maintain financial assets to meet six months of operating expenses.

NOTE 3 –FAIR VALUE MEASUREMENTS

Fair value is defined as the price that HYC would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect HYC’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1: Quoted prices in active markets for identical investments.
- Level 2: 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.
- Level 3: Unobservable inputs for the asset or liability.

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 –FAIR VALUE MEASUREMENTS

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Certain items included as donated inventory may be Level 3 as the values may not be observable. Inputs used in the valuation of donated inventory include values listed in the Salvation Army valuation guide for used items and retail value for new items.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	<u>Donated Inventory</u>
Beginning of year	\$ 76,099
In-kind donations	369,742
Distributions	<u>(418,228)</u>
End of year	<u>\$ 27,613</u>

NOTE 4 – GOVERNMENT GRANTS RECEIVABLE

A portion of HYC’s revenue is derived from federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when HYC has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statement of Financial Position. HYC was awarded cost-reimbursable grants of \$363,061 that have not been recognized at fiscal year end because qualifying expenditures have not yet been incurred. At fiscal year end, \$77,382, of the \$363,061 was recorded as refundable advance.

NOTE 5 – NET ASSETS

Net assets with donor restrictions were as follows:

Specific Purpose	
Trauma Informed Training and Certification	\$ 30,000
Volunteer Coordinator Position	30,000
Passage of Time	
Contribution receivable	<u>12,500</u>
Total	<u>\$ 72,500</u>

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 – NET ASSETS

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions:	
Emergency home	\$ 45,894
Sustainability tools	170,000
Satisfaction of time restrictions	<u>75,000</u>
Total	<u>\$ 290,894</u>

NOTE 6 – OPERATING LEASE COMMITMENTS

HYC leases office space and space for an emergency home under noncancelable operating leases with terms of one to five years. Total rent expense incurred under operating leases totaled \$72,553 during the fiscal year.

The following is a schedule by years of future minimum rental payments under the leases at year end:

Year End:		
	2021	\$ 65,047
	2022	54,422
	2023	<u>4,556</u>
Total		<u>\$ 124,025</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Furniture and equipment	\$ 2,326
Less: Accumulated depreciation	<u>(465)</u>
Net property and equipment	<u>\$ 1,861</u>

HOMELESS YOUTH CONNECTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – PAYCHECK PROTECTION PROGRAM (PPP) LOAN

HYC received approval for a Payroll Protection Program (PPP) loan under the CARES Act on April 29, 2020. The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities within 24 weeks of loan approval (at least 60% of the forgiven amount must be used for payroll). Loan payments will also be deferred for ten months, however interest will continue to accrue. Neither the government nor lenders will charge any fees for the loans. Forgiveness is based on HYC maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. Recipients must also comply with certain Small Business Administration (SBA) requirements and make certain certifications. PPP loans have a maturity of five years, an interest rate of 1% if not forgiven, and no prepayment penalty.

HYC intends to seek forgiveness of the PPP loan, therefore the loan is considered a cost-reimbursement grant from the Federal government for which revenue is recognized when qualifying expenses are incurred and conditions for forgiveness have been met. HYC recognized \$119,761 of revenue for the PPP loan forgiveness during the year. HYC recognized a refundable advance of \$4,139 for the loan amount for which the conditions of qualifying expenses have not been substantially met at year end.

HYC must complete and submit a loan forgiveness application to the lender in order to receive loan forgiveness. Upon receipt of the loan forgiveness application the lender will determine if HYC is entitled to forgiveness of some or all of the loan amount. The lender has 60 days from the receipt of the application to issue a decision to the SBA. As of the September 17, 2020 HYC has not submitted the loan forgiveness application to the lender.

HYC must retain all records relating to the PPP loan, including documentation necessary to support the loan forgiveness application and documentation supporting material compliance with program requirements. HYC must retain all documentation for six years after the loan is forgiven. The loan forgiveness is subject to audit and adjustment by the SBA. Any ineligible loan amounts may result in the SBA requiring HYC repay the loan forgiven in part, or in whole.