

Rising Star Outreach, Inc.

Financial Statements with
Independent Auditor's Report

For the Years Ending March 31, 2018 and 2017

Rising Star Outreach, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rising Star Outreach, Inc.

We have audited the accompanying financial statements of Rising Star Outreach, Inc. (the Organization) a nonprofit organization, which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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.

As described in Note 1 to the financial statements, the Organization's mission is to assist leprosy colonies in India to become thriving, self-sufficient communities. The Organization accomplishes this primarily through contributions to Rising Star Outreach of India (RSOI), a not-for-profit organization separately incorporated in India. The financial statements presented herein do not include the financial position or activities of RSOI as RSOI is not under the control of the Organization and has a separate board of directors.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rising Star Outreach, Inc. as of March 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Larson & Company, PC".

Larson & Company, PC

Spanish Fork, UT
May 31, 2018

Rising Star Outreach, Inc.
Statements of Financial Position
March 31, 2018 and 2017

	ASSETS	
	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 629,273	\$ 801,034
Contributions receivable	9,469	-
Other receivables	841,707	634,013
Prepaid expenses	3,061	2,603
Property and equipment, net	<u>5,489</u>	<u>8,323</u>
Total Assets	<u><u>\$ 1,488,999</u></u>	<u><u>\$ 1,445,973</u></u>
	LIABILITIES AND NET ASSETS	
Liabilities:		
Accrued expenses	\$ 8,227	\$ 3,874
Long-Term Debt	<u>2,153</u>	<u>2,153</u>
Deferred contributions	<u>-</u>	<u>-</u>
Total liabilities	<u>10,380</u>	<u>6,027</u>
Net assets:		
Net assets without donor restrictions	667,494	851,863
Net assets with donor restrictions	<u>811,125</u>	<u>588,083</u>
Total net assets	<u>1,478,619</u>	<u>1,439,946</u>
Total liabilities and net assets	<u><u>\$ 1,488,999</u></u>	<u><u>\$ 1,445,973</u></u>

Rising Star Outreach, Inc.
Statements of Activities
For the Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in unrestricted net assets:		
Revenues and support:		
Contributions	\$ 777,113	\$ 726,752
Inkind contributions	94,558	81,882
Special events, net of direct expenses of \$48,973 and \$42,741 for 2018 and 2017, respectively	22,620	67,455
Investment income	83,087	52,579
Net assets released from restrictions	258,207	460,714
Total unrestricted revenue and support	<u>1,235,585</u>	<u>1,389,382</u>
Expenses:		
RSOI programs	1,176,367	914,127
General and administrative	179,479	137,324
Fundraising	64,109	56,840
Total expenses	<u>1,419,955</u>	<u>1,108,291</u>
Increase (Decrease) in unrestricted net assets	<u>(184,370)</u>	<u>281,091</u>
Changes in temporarily restricted net assets:		
Contributions	481,250	846,013
Net assets released from restrictions	<u>(258,207)</u>	<u>(460,714)</u>
Increase (Decrease) in temporarily restricted net assets	<u>223,043</u>	<u>385,299</u>
Increase (Decrease) in net assets	38,673	666,390
Net assets beginning of year	<u>1,439,946</u>	<u>773,556</u>
Net assets end of year	<u>\$ 1,478,619</u>	<u>\$ 1,439,946</u>

Rising Star Outreach, Inc.
Statement of Functional Expenses
For the Year Ended March 31, 2018

	RSOI Programs	General and Administrative	Fundraising	Total
Salaries and wages	\$ 144,172	\$ 88,744	\$ 59,982	\$ 292,898
Payroll taxes	10,226	6,188	4,127	20,541
Total personnel costs	<u>154,398</u>	<u>94,932</u>	<u>64,109</u>	<u>313,439</u>
Contracted services	36,569	4,842	-	41,411
Contributions - RSOI	863,090	-	-	863,090
Occupancy	-	17,645	-	17,645
Printing	5,037	970	-	6,007
Postage and delivery	2,937	1,002	-	3,939
Travel	69,241	452	-	69,693
Insurance	-	7,970	-	7,970
Professional fees	-	27,607	-	27,607
Bank charges and credit card fees	26,517	3,173	-	29,690
Office expense	-	17,527	-	17,527
Advertising	18,578	-	-	18,578
Depreciation	-	2,834	-	2,834
Miscellaneous	-	525	-	525
Total expenses	<u>\$ 1,176,367</u>	<u>\$ 179,479</u>	<u>\$ 64,109</u>	<u>\$ 1,419,955</u>

Rising Star Outreach, Inc.
Statement of Functional Expenses
For the Year Ended March 31, 2017

	RSOI Programs	General and Administrative	Fundraising	Total
Salaries and wages	\$ 169,363	\$ 71,026	\$ 53,197	\$ 293,586
Payroll taxes	12,430	5,392	3,643	21,465
Total personnel costs	<u>181,793</u>	<u>76,418</u>	<u>56,840</u>	<u>315,051</u>
Contracted services	19,706	12,399	-	32,105
Contributions - RSOI	651,584	-	-	651,584
Occupancy	-	17,412	-	17,412
Printing	2,962	2,717	-	5,679
Postage and delivery	1,572	518	-	2,090
Travel	15,689	384	-	16,073
Insurance	-	2,404	-	2,404
Professional fees	-	4,365	-	4,365
Bank charges and credit card fees	21,375	1,993	-	23,368
Office expense	-	6,540	-	6,540
Advertising	19,446	-	-	19,446
Depreciation	-	2,556	-	2,556
Miscellaneous	-	9,618	-	9,618
Total expenses	<u>\$ 914,127</u>	<u>\$ 137,324</u>	<u>\$ 56,840</u>	<u>\$ 1,108,291</u>

Rising Star Outreach, Inc.
Statements of Cash Flows
For the Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase (Decrease) in net assets	<u>\$ 38,673</u>	<u>\$ 666,390</u>
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	2,834	2,556
Changes in assets and liabilities:		
Decrease (Increase) in:		
Contribution Receivables	(9,469)	-
Prepaid expenses	(458)	(480)
Increase (decrease) in:		
Accrued expenses	<u>4,353</u>	<u>(9,383)</u>
Total adjustments	<u>(2,740)</u>	<u>(7,307)</u>
Net Cash Used in Operating Activities	35,933	659,083
Cash Flows from Investing Activities		
Purchase of furniture & computer equipment	-	(2,778)
Investment loan to Hollow Tree Investments	<u>(207,694)</u>	<u>(352,580)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(207,694)</u>	<u>(355,358)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	-	2,778
Payments on note payable	<u>-</u>	<u>(625)</u>
Net Cash Provided by Financing Activities	<u>-</u>	<u>2,153</u>
Net Increase (Decrease) in cash and cash equivalents	(171,761)	305,878
Cash and Cash Equivalents at Beginning of Year	<u>801,034</u>	<u>495,156</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 629,273</u></u>	<u><u>\$ 801,034</u></u>

1. Nature of Organization and Significant Accounting Policies

Nature of Organization

Rising Star Outreach, Inc. (the Organization) is a not-for-profit corporation formed in 2001 in Atlanta, Georgia. In 2011, the Organization moved its corporate offices from Atlanta to Provo, Utah where they currently operate. The Organization is dedicated to helping leprosy colonies in India to become thriving, self-sufficient communities. The Organization is accomplishing its mission through four major initiatives:

- To educate the colony children in a safe, healthy environment,
- To provide leprosy patients with their own small businesses using micro-financing,
- To address the unique health challenges of the colonies with mobile medical units, and
- To create lifelong humanitarians by providing service opportunities for volunteers.

Method of Reporting and Financial Statement Presentation

The Organization's accounts are maintained, and these statements are presented, on the accrual basis of accounting to present the results of activities and financial position in conformity with accounting principles generally accepted in the United States of America (GAAP).

These financial statements have been prepared in accordance with the new standard ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. See Recent Accounting Guidance included hereafter.

In 2004, the Organization assisted with the formation of Rising Star Outreach of India (RSOI). RSOI is registered as a separate stand-alone non-profit entity under India law and is not under the control of the Organization. RSOI has a separate Board of Directors which has full responsibility for the operations of the entity. Accordingly, the accompanying financial statements of the Organization do not include the financial position or activities of RSOI. Contributions are made to RSOI by the Organization throughout the year to provide funding for various programs including colony building projects, micro-lending, mobile clinics, and "sponsor a child" program.

Contributions

Unconditional promises to give and contributions received are recorded as unrestricted, temporarily, or permanently restricted support, depending on the nature of donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net asset are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. All contributions and unconditional promises to give which do not have donor restrictions as to purpose or time are classified as unrestricted contributions and pledges receivable.

The Organization records gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, as well as gifts of cash or other assets that must be used to acquire long-lived assets, are reported as temporarily restricted assets. Absent explicit donor stipulations regarding the duration that the long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or purchased long-lived assets are placed in service.

All non-cash gifts (other than personal services) are recorded at their estimated fair value at the date of receipt. Donated services are recognized at fair value if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation. As discussed in Note 4, the Organization received various donated services, facilities and office expenses from Board Members. Volunteers provide a significant amount of services to the Organization throughout the year that are not recognized as contributions since the criteria under GAAP was not met.

Property and Equipment

Property and equipment are stated at either cost or, for donated property, the fair market value at the time of donation. Depreciation is recorded using the straight-line method over estimated useful lives of three years for computer equipment. The Organization generally capitalizes fixed asset expenditures over \$1,000.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions – Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature. Other donor imposed restrictions are perpetual in nature. Donor imposed

restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the statements of activities as well as in the statements of functional expenses. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area. General and administrative costs include those expenses that are directly identifiable with any other specific function but provide for the overall support of the Organization.

Estimates

The preparation of 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.

Income Taxes

The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, and classified by the Internal Revenue Service as an organization other than a private foundation. Accordingly, no provisions for federal and state income taxes have been recorded in the accompanying financial statements. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Currently, the Organization engages in no activities that would be taxed as unrelated business income. The Organization believes that it has appropriate support for any tax provisions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid investments with maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

Cash and cash equivalents consist primarily of demand deposits with several financial institutions. The balances in the Organization's bank accounts, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The aggregate bank balances at various institutions exceeded this insured limit by \$374,287 and \$546,476 at March 31, 2018 and 2017 respectively.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying value of the Organization's financial instruments such as cash and cash equivalents, prepaid expenses and accrued expenses is at cost as their cost approximates fair value due to the short-term nature of these instruments.

Recent Accounting Guidance

In August of 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities (the "Standard"). The Standard establishes the new financial reporting framework for not-for-profit organizations. The update will result in changes to the presentation of the statements of financial position, activities, and cash flows. The new guidance reduces the classification of net assets to two categories: (1) net assets with donor restrictions, and (2) net assets without donor restrictions. It also changes the classification and accounting for underwater endowments. The standard requires enhanced net asset disclosures which include information about the timing, nature of restrictions, and composition of the net assets with donor restrictions. Enhanced disclosures are also required for board designated net assets, which are classified as net assets without donor restrictions.

To improve the transparency and utility of liquidity information provided in not-for-profit financial statements, the Standard requires disclosure of quantitative and qualitative liquidity information, including how an entity manages liquidity risk and disclosures about availability of assets to meet cash needs within one year of the statement of net position date.

Changes to the statement of activities includes a requirement to report the total change in net assets and the changes in each of the two new classes of net assets described above. All nonprofits will be required to present and analysis of expenses by function and my natural classification. This can be done on the face of the statement of activities, in a separate statement, or in the footnotes to the financial statements. The statement of cash flows may continue to be presented using the direct or indirect method. If the direct method is adopted the organization is no longer required to include the indirect method reconciliation.

The standard is effective for the fiscal years beginning after December 15, 2017. Early implementation is permitted. Management has evaluated the standard and implemented for the fiscal year ending March 31, 2018

2. OTHER RECEIVABLES

During the period, the Organization issued a financing note to Hollow Tree Investments, LLC. This note was done to increase the amount of funds the Organization could generate through interest for projects that have yet to begin. The balance of the receivable accrues interest monthly. The note is set to be repaid December 31, 2018; however, it could be repaid at any time with a 30 day notice from the Organization. As funds for certain projects are collected, the Organization has the ability to increase the financing note until those funds are needed for the projects. The principal balance of the note as of March 31, 2018 is \$781,879. Accrued interest receivable on the note as of March 31, 2018 is \$59,828.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 19,584	\$ 19,584
Furniture & Fixtures	6,284	6,284
Less: accumulated depreciation	<u>(20,378)</u>	<u>(17,545)</u>
Total property and equipment, net	<u>\$ 5,490</u>	<u>\$ 8,323</u>

Depreciation expense for the years ended March 31, 2018 and 2017 totaled \$2,833 and \$2,556 respectively.

4. RELATED PARTY TRANSACTIONS

As discussed in Note 1, the Organization accomplishes its mission primarily through contributions to RSOI. During the years ended March 31, 2018 and 2017, the Organization provided direct support of \$845,413 and \$651,584 respectively to RSOI as reflected in the accompanying financial statements.

Two members of the Organization's Board of Directors serve as non-voting officers of RSOI. In addition, management estimates that staff time totaling \$13,077 and \$7,449 respectively, was provided by the Organization to RSOI during the years ended March 31, 2018 and 2017.

The Organization received contributions and donated services from various Board members as follows for the years ended March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash contributions	\$ 272,878	\$ 347,264
Expenses paid for the benefit of the Organization	<u>64,921</u>	<u>31,021</u>
	<u>64,921</u>	<u>31,021</u>
Total support from Board members	<u><u>\$ 337,799</u></u>	<u><u>\$ 378,285</u></u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of contributions the Organization has received which are subject to donor-imposed restrictions which have not been met prior to the end of the fiscal year. Temporarily restricted net assets consist of the following at March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Purpose restricted:		
Micro Lending	\$ 180	\$ -
Medical	56,595	41,200
Monsoon Relief	-	10,558
Education	190,965	171,325
Building	340,000	340,000
General	166,000	25,000
Bihar Expansion	<u>57,385</u>	<u>-</u>
Total temporarily restricted net assets	<u><u>\$ 811,125</u></u>	<u><u>\$ 588,083</u></u>

6. NET ASSETS RELEASED FROM RESTRICTIONS

The following net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes as follows during the years ended March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program purpose restriction accomplished:		
Micro Lending	\$ -	\$ 3,355
Medical	42,000	66,977
Monsoon Relief	10,559	13,712
Education	194,033	56,402
Building	-	57,937
General	9,000	262,331
Bihar Expansion	<u>2,615</u>	<u>-</u>
Total program purpose restriction accomplished	<u>\$ 258,207</u>	<u>\$ 460,714</u>

7. SUBSEQUENT EVENTS

Management has evaluated events and transactions which occurred through May 31, 2018 which is the date the financial statements were available to be issued. As a result of that evaluation, management determined that there were no events or transactions that would require disclosure in the financial statements.