

# artists for humanity

**FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**ARTISTS FOR HUMANITY, INC.**

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DECEMBER 31, 2013 AND 2012**

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**Alexander  
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**Alexander, Aronson, Finning & Co., P. C.**

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100  
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100  
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Artists for Humanity, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Artists for Humanity, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, cash flows and functional expenses 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*

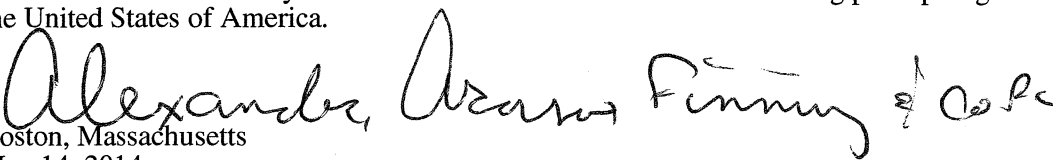
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 Artists for Humanity, Inc. as of December 31, 2013 and 2012, 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.

  
Boston, Massachusetts  
May 14, 2014

**ARTISTS FOR HUMANITY, INC.**

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 281,129	\$ 92,262
Accounts receivable, net of allowance for doubtful accounts of approximately \$3,000 and \$10,500 as of December 31, 2013 and 2012, respectively	150,406	107,246
Current portion of pledges receivable	275,927	754,664
Inventory	10,539	13,578
Prepaid expenses and other	<u>17,381</u>	<u>16,028</u>
Total current assets	735,382	983,778
<b>PLEDGES RECEIVABLE</b> , net of current portion and discount	131,425	319,224
<b>PROPERTY AND EQUIPMENT</b> , net	<u>6,901,183</u>	<u>6,002,702</u>
Total assets	<u>\$ 7,767,990</u>	<u>\$ 7,305,704</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 125,279	\$ 112,065
Accrued expenses	86,355	73,685
Deferred revenue	<u>123,162</u>	<u>143,995</u>
Total current liabilities	<u>334,796</u>	<u>329,745</u>
<b>NET ASSETS:</b>		
Unrestricted:		
Operating	(72,215)	(149,873)
Property and equipment	<u>6,901,183</u>	<u>6,002,702</u>
Total unrestricted	6,828,968	5,852,829
Temporarily restricted	<u>604,226</u>	<u>1,123,130</u>
Total net assets	<u>7,433,194</u>	<u>6,975,959</u>
Total liabilities and net assets	<u>\$ 7,767,990</u>	<u>\$ 7,305,704</u>

*The accompanying notes are an integral part of these statements.*

**ARTISTS FOR HUMANITY, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>			<u>2012</u>		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>OPERATING SUPPORT AND REVENUE:</b>						
Program revenue	\$ 1,379,948	\$ -	\$ 1,379,948	\$ 1,272,962	\$ -	\$ 1,272,962
Grants and contracts	446,816	371,435	818,251	80,405	1,132,470	1,212,875
Contributions	487,856	-	487,856	380,029	-	380,029
Events and sponsorships	190,925	-	190,925	215,030	-	215,030
Donated goods and services	71,336	-	71,336	77,125	-	77,125
Interest and other	40,359	-	40,359	5,277	-	5,277
Net assets released from restrictions:						
Purpose	163,355	(163,355)	-	477,252	(477,252)	-
Time	726,984	(726,984)	-	846,450	(846,450)	-
Total operating support and revenue	<u>3,507,579</u>	<u>(518,904)</u>	<u>2,988,675</u>	<u>3,354,530</u>	<u>(191,232)</u>	<u>3,163,298</u>
<b>OPERATING EXPENSES:</b>						
Program	2,742,595	-	2,742,595	2,871,592	-	2,871,592
General and administrative	429,074	-	429,074	371,970	-	371,970
Fundraising	425,487	-	425,487	396,997	-	396,997
Total operating expenses	<u>3,597,156</u>	<u>-</u>	<u>3,597,156</u>	<u>3,640,559</u>	<u>-</u>	<u>3,640,559</u>
Changes in net assets from operations	(89,577)	(518,904)	(608,481)	(286,029)	(191,232)	(477,261)
<b>NON-OPERATING REVENUE:</b>						
Donated land and acquisition costs	1,065,716	-	1,065,716	-	-	-
Changes in net assets	976,139	(518,904)	457,235	(286,029)	(191,232)	(477,261)
<b>NET ASSETS, beginning of year</b>	<u>5,852,829</u>	<u>1,123,130</u>	<u>6,975,959</u>	<u>6,138,858</u>	<u>1,314,362</u>	<u>7,453,220</u>
<b>NET ASSETS, end of year</b>	<u>\$ 6,828,968</u>	<u>\$ 604,226</u>	<u>\$ 7,433,194</u>	<u>\$ 5,852,829</u>	<u>\$ 1,123,130</u>	<u>\$ 6,975,959</u>

*The accompanying notes are an integral part of these statements.*

**ARTISTS FOR HUMANITY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets from operations	\$ (608,481)	\$ (477,261)
Adjustments to reconcile changes in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation	172,016	172,380
Bad debts	-	6,803
Change in discount on pledges receivable	(12,201)	(9,114)
Changes in operating assets and liabilities:		
Accounts receivable	(43,160)	79,871
Pledges receivable	678,737	164,204
Inventory	3,039	1,437
Prepaid expenses and other	(1,353)	454
Accounts payable	13,214	41,300
Accrued expenses	12,670	(49,497)
Deferred revenue	(20,833)	36,395
	193,648	(33,028)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(4,781)	(47,037)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on note payable to a bank	-	(150,000)
	188,867	(230,065)
<b>NET INCREASE (DECREASE) IN CASH</b>		
<b>CASH, beginning of year</b>	92,262	322,327
<b>CASH, end of year</b>	\$ 281,129	\$ 92,262
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 2,226	\$ 1,696
<b>NON-CASH TRANSACTION:</b>		
Donated land and acquisition costs	\$ 1,065,716	\$ -

*The accompanying notes are an integral part of these statements.*

**ARTISTS FOR HUMANITY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

(With Summarized Comparative Totals for the Year Ended December 31, 2012)

	2013			2012	
	PROGRAM	GENERAL AND ADMINIS- TRATIVE	FUND- RAISING	TOTAL	TOTAL
<b>OPERATING EXPENSES:</b>					
Personnel and related:					
Salaries - other staff	\$ 1,110,991	\$ 230,280	\$ 299,592	\$ 1,640,863	\$ 1,495,063
Salaries - youth artists	556,917	-	-	556,917	607,739
Payroll taxes and fringe benefits	266,922	35,627	46,350	348,899	327,576
Donated salaries - youth artists	57,382	-	-	57,382	72,080
Contracted artists and services	24,975	14,969	-	39,944	69,344
Total personnel and related	2,017,187	280,876	345,942	2,644,005	2,571,802
Program supplies	268,338	-	-	268,338	299,028
Depreciation	131,599	17,565	22,852	172,016	172,380
Professional services and consultants	74,039	35,092	894	110,025	194,397
Equipment rental and maintenance	43,263	23,765	5,302	72,330	63,051
Cleaning	45,137	16,287	4,187	65,611	60,072
Training and travel	36,029	401	7,106	43,536	58,563
Utilities	30,282	4,042	5,258	39,582	31,738
Miscellaneous	10,254	17,566	1,730	29,550	27,766
Event expense	11,960	-	11,961	23,921	25,218
Insurance	16,073	2,145	2,791	21,009	19,514
Printing, including donated	10,880	3,627	3,627	18,134	18,863
Telephone	9,738	3,541	4,426	17,705	19,528
Postage and shipping, including donated	8,356	3,743	3,743	15,842	16,236
Donated legal services	-	13,003	-	13,003	-
Repairs and maintenance	9,077	1,209	1,572	11,858	9,674
Office supplies	2,599	5,022	2,511	10,132	10,081
Trash removal	7,213	963	1,253	9,429	9,213
Alumni commissions	6,081	-	-	6,081	9,356
Scholarships	2,750	-	-	2,750	500
Interest	1,703	227	296	2,226	1,696
Online advertising services, including donated	37	-	36	73	15,080
Bad debts	-	-	-	-	6,803
Total operating expenses	<u>\$ 2,742,595</u>	<u>\$ 429,074</u>	<u>\$ 425,487</u>	<u>\$ 3,597,156</u>	<u>\$ 3,640,559</u>

*The accompanying notes are an integral part of these statements.*

**ARTISTS FOR HUMANITY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>PROGRAM</u>	<u>GENERAL AND ADMINIS- TRATIVE</u>	<u>FUND- RAISING</u>	<u>TOTAL</u>
<b>OPERATING EXPENSES:</b>				
Personnel and related:				
Salaries - other staff	\$ 1,023,143	\$ 198,248	\$ 273,672	\$ 1,495,063
Salaries - youth artists	607,739	-	-	607,739
Payroll taxes and fringe benefits	256,496	29,860	41,220	327,576
Donated salaries - youth artists	72,080	-	-	72,080
Contracted artists and services	56,471	12,873	-	69,344
	<hr/>	<hr/>	<hr/>	<hr/>
Total personnel and related	2,015,929	240,981	314,892	2,571,802
Program supplies	299,028	-	-	299,028
Depreciation	134,976	15,713	21,691	172,380
Professional services and consultants	147,589	46,016	792	194,397
Equipment rental and maintenance	41,796	16,908	4,347	63,051
Cleaning	46,856	7,209	6,007	60,072
Training and travel	53,066	721	4,776	58,563
Utilities	24,851	2,893	3,994	31,738
Miscellaneous	11,179	15,391	1,196	27,766
Event expense	12,609	-	12,609	25,218
Insurance	15,293	1,784	2,437	19,514
Printing, including donated	11,317	3,773	3,773	18,863
Telephone	10,742	3,906	4,880	19,528
Postage and shipping, including donated	10,328	2,954	2,954	16,236
Repairs and maintenance	7,575	882	1,217	9,674
Office supplies	2,520	5,041	2,520	10,081
Trash removal	7,214	840	1,159	9,213
Alumni commissions	9,356	-	-	9,356
Scholarships	500	-	-	500
Interest	1,328	155	213	1,696
Online advertising services, including donated	7,540	-	7,540	15,080
Bad debts	-	6,803	-	6,803
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	<u>\$ 2,871,592</u>	<u>\$ 371,970</u>	<u>\$ 396,997</u>	<u>\$ 3,640,559</u>

*The accompanying notes are an integral part of these statements.*



**ARTISTS FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

**OPERATIONS AND NONPROFIT STATUS**

Artists for Humanity, Inc. (AFH) was organized in 1991 as a Massachusetts not-for-profit corporation with a mission to provide urban young people with the keys to self-sufficiency through paid employment in the arts. AFH offers inner-city teens an intensive paid apprenticeship in which they work with professional artists and young artist mentors to design, create and sell art products. During out-of-school time, participants create art, work on exhibitions and respond to business clients by meeting their graphic service needs.

AFH is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). AFH is also exempt from state income taxes. Donors may deduct contributions made to AFH within the IRC regulations.

**SIGNIFICANT ACCOUNTING POLICIES**

AFH prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC).

**Revenue Recognition**

Contracts are recorded over the contract period as services are provided. Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions lapse.

Program revenue and all other revenue are recognized when earned. Payments received in advance of services being performed are recorded as deferred revenue.

**Property and Equipment and Depreciation**

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<b><u>Estimated Useful Lives</u></b>
Building	40 years
Office and artistic equipment	3 - 5 years
Furniture and fixtures	5 years

**ARTISTS FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**  
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Pledges Receivable

Pledges are recorded at their net present value when unconditionally committed. Pledges receivable are expected to be collected as follows at December 31:

<u>Fiscal Year</u>	<u>2013</u>	<u>2012</u>
Due within one year	\$275,927	\$ 754,664
Due in one to five years	<u>135,000</u>	<u>335,000</u>
	410,927	1,089,664
Less - discount	<u>3,575</u>	<u>15,776</u>
	407,352	1,073,888
Less - current portion	<u>275,927</u>	<u>754,664</u>
	<u>\$131,425</u>	<u>\$ 319,224</u>

Pledges receivable have been discounted to their net present value using a discount rate of 2%.

Allowance for Doubtful Accounts and Pledges Receivable

Allowances for potentially uncollectible accounts and pledges receivable are provided based upon management's assessment of potential defaults. The allowance against doubtful accounts receivable was approximately \$3,000 and \$10,500 at December 31, 2013 and 2012, respectively. There was no allowance for doubtful pledges receivable deemed necessary at December 31, 2013 and 2012.

Expense Allocations

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to the program.

Donated Goods and Services

AFH receives services of professional volunteers and donated goods and services in various aspects of its programs and operations. The value assigned to these services and items, based on the donor's estimate of the fair value, has been reflected in the accompanying financial statements as donated goods and services as follows:

	<u>2013</u>	<u>2012</u>
Salaries - youth artists	\$57,382	\$72,080
Legal services	13,003	-
Printing, postage and shipping	878	3,090
Online advertising services	<u>73</u>	<u>1,955</u>
Total donated goods and services	<u>\$71,336</u>	<u>\$77,125</u>

See also Note 2.

**ARTISTS FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**  
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Net Assets

**Unrestricted Net Assets**

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by AFH. AFH has grouped its unrestricted net assets into the following categories:

**Operating net assets** represent funds available to carry on the operations of AFH.

**Property and equipment net assets** reflect and account for the activities relating to AFH's property, equipment and building.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are donor restricted contributions which have not yet been expended for their designated purpose or are designated for a future time period.

Temporarily restricted net assets are comprised of the following at December 31:

	<u>2013</u>	<u>2012</u>
Time restricted	\$531,876	\$1,072,875
Purpose restricted	<u>72,350</u>	<u>50,255</u>
	<u>\$604,226</u>	<u>\$1,123,130</u>

Advertising Costs

AFH expenses advertising costs as they are incurred. During 2013 and 2012, AFH received donated online advertising services in the amount of \$73 and \$1,955, respectively (see page 8). AFH also had \$13,125 of other advertising costs during 2012.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ARTISTS FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance only applies when the fair value measurement of assets and liabilities is required or permitted. AFH has determined that none of its financial or nonfinancial assets or liabilities is measured at fair value, therefore, the disclosure requirements do not currently apply.

Subsequent Events

Subsequent events have been evaluated through May 14, 2014, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Income Taxes

AFH accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statement regarding a tax position taken or expected to be taken in a tax return. AFH has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2013 and 2012. AFH's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Inventory

Inventory is stated at the lower of cost determined on a first-in, first-out (FIFO) method or market and consists of shirts.

(2) **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$2,265,716	\$1,200,000
Building	5,900,964	5,900,964
Office and artistic equipment	204,652	199,871
Furniture and fixtures	87,735	87,735
	<u>8,459,067</u>	<u>7,388,570</u>
Less - accumulated depreciation	<u>1,557,884</u>	<u>1,385,868</u>
	<u>\$6,901,183</u>	<u>\$6,002,702</u>

**ARTISTS FOR HUMANITY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**(2) PROPERTY AND EQUIPMENT (Continued)**

During 2013, AFH received donated land adjacent to its current facility, which was recorded at \$1,000,000, management's estimate of its fair value based on comparative sales in the area and other factors (see Note 1). AFH also received \$65,716 of donated legal services related to this land donation. The total of \$1,065,716 is reflected as donated land and acquisition costs in the accompanying 2013 statement of activities and changes in net assets and is included in land on page 10. This gift will allow AFH to expand its current EpiCenter facility to engage hundreds more diverse and low-income youth each year with jobs in the creative industries. AFH envisions creating an urban laboratory where youth and community intersect in pioneering social change.

**(3) NOTE PAYABLE TO A BANK**

AFH has available a \$150,000 line of credit agreement with a bank. Borrowings under the agreement are due on demand, and interest is payable monthly at a rate equal to the *Wall Street Journal's* prime rate (3.25% at December 31, 2013 and 2012), plus 1%. The line of credit is secured by substantially all assets of AFH. There was no outstanding balance on the line of credit as of December 31, 2013 and 2012. The line of credit renews annually.

**(4) RELATED PARTY TRANSACTIONS**

One member of the Board of Directors is employed by AFH and received compensation totaling approximately \$65,000 and \$64,000 during 2013 and 2012, respectively.

One member of the Board of Directors provided donated services for the year ended December 31, 2012. These services had a value of approximately \$4,500. There were no donated services from Board members in 2013.

**(5) RETIREMENT PLAN**

AFH maintains an IRC Section 403(b) retirement plan for qualified salaried employees. Eligible employees may elect to contribute the maximum amount of compensation allowed by law each year. AFH does not match employee contributions.

**(6) CONCENTRATIONS**

AFH maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash balances exceeded the insured amounts. AFH has not experienced any losses in such accounts. AFH believes it is not exposed to any significant credit risk on its cash. Management monitors, on a regular basis, the financial condition of the financial institution, along with its balances, to keep this potential risk to a minimum.

As of December 31, 2013, accounts receivable from one organization made up 23% of the total outstanding accounts receivable. As of December 31, 2012, accounts receivable from three organizations made up 33% of the total outstanding accounts receivable.

**ARTISTS FOR HUMANITY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

(Continued)

**(6) CONCENTRATIONS (Continued)**

As of December 31, 2013, pledges from three donors represented 79% of the total outstanding pledges receivable. As of December 31, 2012, pledges from two donors represented 55% of the total outstanding pledges receivable.

For the year ended December 31, 2012, donations from one foundation comprised 15% of total revenue.

**(7) CONDITIONAL GRANT**

During 2013, an organization awarded AFH a \$45,000 gift, of which \$30,000 was received through December 31, 2013. The balance of \$15,000 is a conditional gift as of December 31, 2013. Since this gift is conditional upon AFH meeting certain benchmarks, it is not reflected in the accompanying financial statements as of December 31, 2013.