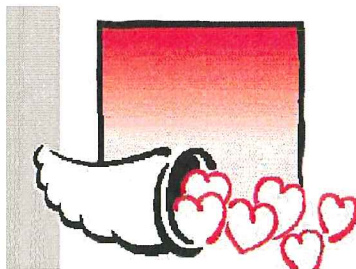


**BIRCH COMMUNITY SERVICES, INC.**

**FINANCIAL STATEMENTS**

**Year Ended October 31, 2013**



**BIRCH COMMUNITY SERVICES, INC.**

**FINANCIAL STATEMENTS**

**Year Ended October 31, 2013**

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**KERN & THOMPSON, LLC**

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Birch Community Services, Inc.  
Portland, Oregon

We have audited the accompanying financial statements of Birch Community Services, Inc. (a non-profit organization), which comprise the statement of financial position as of October 31, 2013, 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***

The Organization's 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.

### ***Auditors' 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 auditors' 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 Birch Community Services, Inc. as of October 31, 2013, 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.

*Kern & Thompson, LLC*

Portland, Oregon  
May 16, 2014

**BIRCH COMMUNITY SERVICES, INC.**  
**STATEMENT OF FINANCIAL POSITION**

October 31, 2013

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 269,429
Grant receivable	44,000
Inventories	614,823
Prepaid expenses	4,488
<b>Total current assets</b>	<b><u>932,740</u></b>

**Property and equipment**

Autos and trucks	260,387
Equipment and furniture	319,978
Leasehold improvements	81,821
	<u>662,186</u>
Less accumulated depreciation	(440,287)
<b>Net property and equipment</b>	<b><u>221,899</u></b>

<b>Total assets</b>	<b>\$ <u>1,154,639</u></b>
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**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accrued payroll	\$ <u>41,556</u>
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**Net assets**

Unrestricted	1,095,205
Temporarily restricted	<u>17,878</u>

<b>Total net assets</b>	<b><u>1,113,083</u></b>
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<b>Total liabilities and net assets</b>	<b>\$ <u>1,154,639</u></b>
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See notes to financial statements.

**BIRCH COMMUNITY SERVICES, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended October 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues, gains and other support</b>			
Contributions	\$ 115,320	\$ 114,325	\$ 229,645
Membership dues	410,032	-	410,032
Donated food and clothing	11,004,843	-	11,004,843
Interest	506	-	506
Other income	61,145	-	61,145
	<u>11,591,846</u>	<u>114,325</u>	<u>11,706,171</u>
Net assets released from restrictions	106,447	(106,447)	-
<b>Total revenues, gains and other support</b>	<u><b>11,698,293</b></u>	<u><b>7,878</b></u>	<u><b>11,706,171</b></u>
<b>Expenses</b>			
Program services	11,708,754	-	11,708,754
Supporting services			
Management and general	70,200	-	70,200
Development	81,884	-	81,884
<b>Total expenses</b>	<u><b>11,860,838</b></u>	<u><b>-</b></u>	<u><b>11,860,838</b></u>
<b>Change in net assets</b>	<b>(162,545)</b>	<b>7,878</b>	<b>(154,667)</b>
Net assets, beginning of year	<u>1,257,750</u>	<u>10,000</u>	<u>1,267,750</u>
<b>Net assets, end of year</b>	<u><u><b>\$ 1,095,205</b></u></u>	<u><u><b>\$ 17,878</b></u></u>	<u><u><b>\$ 1,113,083</b></u></u>

See notes to financial statements.

**BIRCH COMMUNITY SERVICES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended October 31, 2013**

	<b>PROGRAM SERVICES</b>	<b>SUPPORTING SERVICES</b>		<b>Total</b>
		<b>Manage- ment and General</b>	<b>Develop- ment</b>	
Payroll and payroll taxes	\$ 233,976	\$ 30,807	\$ 43,287	\$ 308,070
Employee benefits	42,663	5,332	5,332	53,327
Grant writing	7,895	987	987	9,869
In-kind food and clothing	11,158,780	-	-	11,158,780
Utilities	25,063	3,132	3,132	31,327
Repairs and maintenance	7,641	955	955	9,551
Insurance	14,024	1,752	1,752	17,528
Telephone	4,971	621	621	6,213
Truck and automobile	18,921	2,364	2,364	23,649
Office expense	25,917	3,239	3,239	32,395
Advertising and promotion	2,046	255	255	2,556
Postage and delivery	587	73	73	733
Occupancy	103,760	12,970	12,970	129,700
Professional fees	2,948	368	368	3,684
Participant education	3,781	420	-	4,201
Depreciation	52,396	6,549	6,549	65,494
Miscellaneous	3,385	376	-	3,761
	<b>\$ 11,708,754</b>	<b>\$ 70,200</b>	<b>\$ 81,884</b>	<b>\$ 11,860,838</b>

See notes to financial statements.

**BIRCH COMMUNITY SERVICES, INC.**

**STATEMENT OF CASH FLOWS**

**Year Ended October 31, 2013**

**Cash flows from operating activities:**

Change in net assets	\$ (154,667)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	65,494
Grant receivable	(44,000)
Changes in assets and liabilities:	
Inventories	153,937
Accrued payroll	18,346
<b>Net cash provided by operating activities</b>	<b><u>39,110</u></b>

**Cash flows from investing activities:**

Purchase of property and equipment	<b><u>(37,182)</u></b>
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**Net change in cash** **1,928**

Cash, beginning of year **267,501**

**Cash, end of year** **\$ 269,429**

See notes to financial statements.



**BIRCH COMMUNITY SERVICES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**October 31, 2013**

**NOTE A – DESCRIPTION OF ORGANIZATION**

Birch Community Services, Inc. is a nonprofit organization formed under the laws of the State of Oregon. The Organization facilitates the strengthening of healthy families through financial stability and a debt-free ethic. The Organization's mission is to *provide a community where people can be responsible and accountable for meeting their basic needs, and to equip them with tools to overcome financial difficulty.*

Since 1992, the Organization has given families the means to reach these goals of decreasing consumer debt, meeting medical bills, or helping pay for education to earn a livable wage. The average family participating in the Organization's programs consists of two parents and three children under 18; consequently, well over half of the Organization's beneficiaries are children. Over 110 local food wholesalers, retailers, restaurants and farms donate products to the Organization, which enables it to directly benefit over 930 needy families a year, and indirectly support 50 other social-service agencies – some of them with food pantries of their own. Participant families and agencies come to our warehouse in northeast Portland three days each week to pick up food, clothing, household items and work boots (7.1 million pounds during 2013).

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The financial statements of the Organization have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues and support are recorded when earned, and expenditures are recorded as incurred.

**Cash and Cash Equivalents**

For financial reporting purposes, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor 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 assets are reclassified to unrestricted net assets.

**Inventory**

The Organization receives contributions of food and clothing. These contributions represent a significant portion of the Organization's operations, and are reflected as in-kind donations and recorded at their estimated wholesale value. The Organization's policy is to value donated food products at the value determined by America's Second Harvest – The Nation's Food Bank Network. For the year ended October 31, 2013, the value used was \$1.50 per pound. Clothing is valued at \$1.00 per pound and work boots are valued at \$50 per pair. During the year, approximately 364,652 pounds of donated inventory was received by the Organization.



**BIRCH COMMUNITY SERVICES, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2013**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the various assets. Expenditures for additions, major renewals, and betterments are capitalized, and expenditures for repairs and maintenance are charged to income as incurred. Donated assets are reflected as contributions at their estimated fair value at the date of receipt. It is the Organization's policy to capitalize property and equipment with a cost over \$500.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income Taxes**

The Organization operates as a nonprofit corporation and has received tax-exempt status under Code Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization's federal exempt information returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

**Advertising Costs**

The Organization expenses advertising costs as they are incurred.

**Basis of Presentation**

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets in 2013.

**Functional Allocation of Expenses**

The cost of providing the various programs and other activities have been summarized in the Statement of Activities. Certain costs, including salaries, occupancy, professional fees and depreciation, have been allocated among the programs and supporting services benefitted.

**BIRCH COMMUNITY SERVICES, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2013**

**NOTE C – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of amounts received to purchase equipment.

**NOTE D – CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash and cash equivalents at a bank insured by the Federal Deposit Insurance Corporation. Balances may exceed insured limits at various times.

**NOTE E – INVENTORY**

Inventory consists of the following:

Food	\$ 533,236
Shoes	73,900
Clothing	<u>7,687</u>
	<u>\$ 614,823</u>

**NOTE F – RETIREMENT SAVINGS PLAN**

The Organization has adopted a Simple Plan for the benefit of its employees and contributed \$4,673 to the Plan for the year ended October 31, 2013.

**NOTE G – LEASE COMMITMENTS**

The Organization leases its warehouse and office under an operating lease agreement that expires July 2015. The Organization is responsible for utilities and other occupancy costs. Rental expenses for the year ended October 31, 2013 were \$129,700. Future minimum lease commitments are as follows:

<u>Year Ended October 31,</u>	
2014	\$ 129,300
2015	96,975
2016	-
2017	-
2018	<u>-</u>
	<u>\$ 226,275</u>

**BIRCH COMMUNITY SERVICES, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2013**

**NOTE H – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 16, 2014, which is the date the financial statements were available to be issued.