

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2017



Birch
Community Services, Inc.

KERN ▲ THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the 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, 2017, 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.

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, 2017, 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
October 23, 2018

BIRCH COMMUNITY SERVICES, INC.
STATEMENT OF FINANCIAL POSITION

October 31, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 252,283
Account receivable	22,500
Inventory	573,369
Investments	61,971
Prepaid expenses	4,488
Total current assets	<u>914,611</u>

Property and equipment

Autos and trucks	262,737
Equipment and furniture	398,786
Leasehold improvements	95,171
	<u>756,694</u>
Less accumulated depreciation	(633,018)
Net property and equipment	<u>123,676</u>

Total assets **\$ 1,038,287**

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 17,758
Deferred revenue	41,050
Accrued payroll	35,125
Total current liabilities	<u>93,933</u>

Net assets

Unrestricted	810,236
Temporarily restricted	134,118
Total net assets	<u>944,354</u>

Total liabilities and net assets **\$ 1,038,287**

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended October 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support			
Contributions	\$ 138,706	\$ 222,394	\$ 361,100
Membership dues	498,823	-	498,823
Donated food and clothing	13,947,872	-	13,947,872
Recycling income	70,262	-	70,262
Investment return	12,012	-	12,012
Other income	167	-	167
	<u>14,667,842</u>	<u>222,394</u>	<u>14,890,236</u>
Net assets released from restrictions	<u>162,467</u>	<u>(162,467)</u>	<u>-</u>
Total revenues, gains and other support	<u>14,830,309</u>	<u>59,927</u>	<u>14,890,236</u>
Expenses			
Program services	14,878,054	-	14,878,054
Supporting services			
Management and general	89,881	-	89,881
Development	89,881	-	89,881
Total expenses	<u>15,057,816</u>	<u>-</u>	<u>15,057,816</u>
Change in net assets	(227,507)	59,927	(167,580)
Net assets, beginning of year	<u>1,037,743</u>	<u>74,191</u>	<u>1,111,934</u>
Net assets, end of year	<u>\$ 810,236</u>	<u>\$ 134,118</u>	<u>\$ 944,354</u>

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2017

	PROGRAM SERVICES	SUPPORTING SERVICES		Total
		Manage- ment and General	Develop- ment	
Payroll and payroll taxes	\$ 377,252	\$ 47,156	\$ 47,156	\$ 471,564
Employee benefits	45,673	5,709	5,709	57,091
Grant writing	2,876	-	-	2,876
In-kind food and clothing	14,147,759	-	-	14,147,759
Utilities	33,068	4,134	4,134	41,336
Repairs and maintenance	9,558	1,195	1,195	11,948
Insurance	13,541	1,693	1,693	16,927
Telephone	6,765	846	846	8,457
Truck and automobile	17,044	2,130	2,130	21,304
Office expense	12,912	1,614	1,614	16,140
Advertising and promotion	3,689	461	461	4,611
Postage and delivery	6,729	841	841	8,411
Printing and copying	5,395	675	675	6,745
Occupancy	129,902	16,238	16,238	162,378
Participant education	8,382	-	-	8,382
Professional fees	4,232	529	529	5,290
Depreciation	53,277	6,660	6,660	66,597
	\$ 14,878,054	\$ 89,881	\$ 89,881	\$ 15,057,816

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF CASH FLOWS

Year Ended October 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ (167,580)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	66,597
Unrealized (gain) loss on investments	(11,971)
Changes in assets and liabilities:	
Accounts receivable	(22,500)
Inventory	199,887
Accounts payable	(4,956)
Accrued payroll	2,468
Deferred revenue	41,050
Net cash provided by operating activities	<u>102,995</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(10,331)</u>
Net change in cash	92,664
Cash, beginning of year	<u>159,619</u>
Cash, end of year	<u><u>\$ 252,283</u></u>

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 2017

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 200 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 60 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 (approximately 9 million pounds during 2017).

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 values determined by similar organizations such as Oregon Food Bank. For the year ended October 31, 2017, the value used was \$1.50 per pound. Clothing is valued at \$1.00 per pound and work boots are valued at \$50.00 per pair. During the year, approximately 9,370,000 pounds of donated inventory was received by the Organization.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment and Fair Value Measurements

Investments are the only assets measured at fair value on a recurring basis. Valuation techniques used to measure fair value are prioritized into the following hierarchy:

- | | |
|----------------|--|
| Level 1 | Quoted prices in active markets for identical assets. |
| Level 2 | Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data by correlation such as appraisals or other means such as calculations based on contractual rates and published tables. |
| Level 3 | Unobservable inputs that reflect management's assumptions and best estimates based on available data. |

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.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017.

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.

NOTE C – INVESTMENTS

Investments consist primarily of equity and fixed income mutual funds. Realized and unrealized gains and losses from these assets are reported in the Statement of Activities as they occur. There have been no changes in valuation techniques and related inputs.

Fair values of assets measured on a recurring basis at October 31, 2017 were as follows:

	Level 1	Level 2	Level 3	Fair Value Total
Mutual funds	\$ 59,805	\$ -	\$ -	\$ 59,805
Money Market	-	2,166	-	2,166
	\$ 59,805	\$ 2,166	\$ -	\$ 61,971

Investment return is comprised of the following for the year ended March 31, 2017:

	Total
Interest and dividends	\$ 41
Net realized and unrealized gain (loss)	11,971
	\$ 12,012

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2017

NOTE D – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of amounts received with purpose restrictions to carry out specific program activities and purchase equipment.

NOTE E – 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 F – INVENTORY

Inventory consists of the following:

Food	\$	469,064
Shoes		59,700
Clothing		<u>44,605</u>
	\$	<u>573,369</u>

NOTE G – RETIREMENT SAVINGS PLAN

The Organization has adopted a Simple Plan for the benefit of its employees and contributed \$8,196 to the Plan for the year ended October 31, 2017.

NOTE H – LEASE COMMITMENTS

The Organization leases its warehouse and office under an operating lease agreement that expires August 31, 2023. The Organization is responsible for utilities and other occupancy costs. Rental expenses for the year ended October 31, 2017 were \$162,378. Future minimum lease commitments are as follows:

<u>Year Ended</u> <u>October 31,</u>		
2018	\$	145,116
2019		176,312
2020		180,630
2021		185,080
2022		189,662
Thereafter		<u>161,310</u>
	\$	<u>1,038,110</u>

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 23, 2018, which is the date the financial statements were available to be issued.