

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2020



KERN ▲ THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2020

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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, 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.

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, 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.

Kern & Thompson, LLC

Portland, Oregon
October 19, 2021

BIRCH COMMUNITY SERVICES, INC.
STATEMENT OF FINANCIAL POSITION

October 31, 2020

ASSETS

Current assets

| | | |
|-----------------------------|----|-------------------------|
| Cash and cash equivalents | \$ | 474,802 |
| Inventory | | 1,256,232 |
| Prepaid expenses | | 15,235 |
| Total current assets | | <u>1,746,269</u> |

Property and equipment

| | | |
|-----------------------------------|--|-----------------------|
| Autos and trucks | | 358,223 |
| Equipment and furniture | | 434,285 |
| Leasehold improvements | | 95,171 |
| | | <u>887,679</u> |
| Less accumulated depreciation | | (709,557) |
| Net property and equipment | | <u>178,122</u> |

| | | |
|---------------------|-----------|-------------------------|
| Total assets | \$ | <u>1,924,391</u> |
|---------------------|-----------|-------------------------|

LIABILITIES AND NET ASSETS

Current liabilities

| | | |
|----------------------------------|----|-----------------------|
| Refundable advances | \$ | 125,035 |
| Deferred revenue | | 54,000 |
| Accrued payroll | | 24,901 |
| Total current liabilities | | <u>203,936</u> |

Net assets

| | | |
|----------------------------|--|-------------------------|
| Without donor restrictions | | 1,555,868 |
| With donor restrictions | | 164,587 |
| Total net assets | | <u>1,720,455</u> |

| | | |
|---|-----------|-------------------------|
| Total liabilities and net assets | \$ | <u>1,924,391</u> |
|---|-----------|-------------------------|

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended October 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---|--|----------------------------|
| Support and revenue | | | |
| Contributions | \$ 332,390 | \$ 153,311 | \$ 485,701 |
| Membership dues | 653,651 | - | 653,651 |
| Recycling income | 7,751 | - | 7,751 |
| Investment return | (892) | - | (892) |
| Other income | 12,947 | - | 12,947 |
| | <u>1,005,847</u> | <u>153,311</u> | <u>1,159,158</u> |
| Net assets released from restrictions | <u>71,399</u> | <u>(71,399)</u> | <u>-</u> |
| Total support and revenue | <u>1,077,246</u> | <u>81,912</u> | <u>1,159,158</u> |
| Operating expenses | | | |
| Program services | 834,770 | - | 834,770 |
| Supporting services | | | |
| Management and general | 161,384 | - | 161,384 |
| Development | 71,868 | - | 71,868 |
| Total operating expenses | <u>1,068,022</u> | <u>-</u> | <u>1,068,022</u> |
| Change in net assets from operations | <u>9,224</u> | <u>81,912</u> | <u>91,136</u> |
| Donated food and clothing | 20,781,194 | - | 20,781,194 |
| Distributed food and clothing | <u>(20,417,994)</u> | <u>-</u> | <u>(20,417,994)</u> |
| Net in-kind food and clothing pass-through activities | <u>363,200</u> | <u>-</u> | <u>363,200</u> |
| Change in net assets | <u>372,424</u> | <u>81,912</u> | <u>454,336</u> |
| Net assets, beginning of year | <u>1,183,444</u> | <u>82,675</u> | <u>1,266,119</u> |
| Net assets, end of year | <u>\$ 1,555,868</u> | <u>\$ 164,587</u> | <u>\$ 1,720,455</u> |

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2020

| | PROGRAM SERVICES | SUPPORTING SERVICES | | Total |
|---------------------------------|-----------------------------|---|--------------------------|----------------------|
| | | Manage- ment and General | Develop- ment | |
| Payroll and payroll taxes | \$ 469,178 | \$ 58,647 | \$ 58,647 | \$ 586,472 |
| Employee benefits | 47,733 | 5,967 | 5,966 | 59,666 |
| Grant writing | - | - | 4,989 | 4,989 |
| Utilities | 45,152 | 11,288 | - | 56,440 |
| Repairs and maintenance | 17,276 | - | - | 17,276 |
| Insurance | - | 18,348 | - | 18,348 |
| Supplies | 4,542 | 1,135 | - | 5,677 |
| Truck and automobile | 38,664 | - | - | 38,664 |
| Office expense | - | 20,086 | - | 20,086 |
| Website | - | 2,266 | 2,266 | 4,532 |
| Postage and delivery | 9,683 | 1,230 | - | 10,913 |
| Printing and copying | - | 3,789 | - | 3,789 |
| Occupancy | 165,843 | 18,427 | - | 184,270 |
| Bank fees | - | 10,405 | - | 10,405 |
| Professional fees | - | 8,778 | - | 8,778 |
| Depreciation | 36,699 | 1,018 | - | 37,717 |
| Total operating expenses | 834,770 | 161,384 | 71,868 | 1,068,022 |
| Value of in-kind distributions | 20,417,994 | - | - | 20,417,994 |
| Total expenses | \$ 21,252,764 | \$ 161,384 | \$ 71,868 | \$ 21,486,016 |

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF CASH FLOWS

Year Ended October 31, 2020

| | |
|--|---------------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 454,336 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | |
| Depreciation | 37,717 |
| Net in-kind donations | (363,200) |
| Changes in assets and liabilities: | |
| Accounts receivable | 6,784 |
| Prepaid expenses | (10,747) |
| Accounts payable | (7,847) |
| Accrued payroll | (7,074) |
| Deferred revenue | 9,931 |
| Refundable advances | 125,035 |
| Net cash provided by operating activities | <u>244,935</u> |
| Cash flows from investing activities: | |
| Purchase of property and equipment | <u>(100,819)</u> |
| Net change in cash | 144,116 |
| Cash, beginning of year | <u>330,686</u> |
| Cash, end of year | \$ <u><u>474,802</u></u> |

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 2020

NOTE A – DESCRIPTION OF ORGANIZATION

Birch Community Services, Inc. (the Organization) is a nonprofit organization formed under the laws of the State of Oregon. 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.

Birch Community Services, Inc. serves approximately 600 families and 70 other not-for-profit agencies every week. The Organization's programs strengthen the financial security of lower-income families through our four pillars of "Food, Education, Freedom, Legacy." Food provides immediate financial relief and creates margin in budget to pay down debt. Education is provided by our Financial Literacy Manager through one-on-one meetings and financial courses. Freedom is experienced as goals are accomplished and families become debt-free. Legacy results as families are able to demonstrate financial stability, influencing their community and children's futures.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred. Transactions are classified according to the existence or absence of donor-imposed restrictions.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate net assets without donor restrictions for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets either subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time, or net assets with donor restrictions that are not subject to appropriation or expenditure.

Expenses are reported as a decrease in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as increases in net assets without donor restrictions.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue streams applicable to the Organization that qualify as exchange transactions with “customers” (primarily membership dues) are recognized monthly when all risks and rewards transfer. Amounts received from customers in advance are recorded as deferred revenue until the Organization’s performance obligations are satisfied.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as increases in net assets without donor restrictions. Otherwise, when a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Functional Allocation of Expenses

The costs of providing the programs and supporting services have been summarized in the statement of Activities. Directly identifiable expenses are charged to programs and supporting services when incurred. Certain costs, including office expense, occupancy, leases and utilities have been allocated among the programs and supporting services benefited based primarily on estimates of time and effort.

Estimates

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

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.

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. For the year ended October 31, 2020, 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.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is recorded at cost when purchased, or fair market value when donated. Expenditures exceeding \$1,000 for additions, major renewals, and betterments are capitalized, and expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation of property and equipment has been calculated using the straight-line method over the following estimated useful lives:

| | |
|---------------------------|------------|
| Vehicles | 5 years |
| Furniture and fixtures | 5-10 years |
| Building and improvements | 15 years |

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization places its cash with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of FDIC coverage totaled approximately \$220,000 at October 31, 2020.

Income Taxes

The Organization has been approved as a tax exempt organization under the Internal Revenue Code Section 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization does not believe it has unrelated trade or business income in excess of \$1,000.

NOTE C – RESTRICTIONS ON NET ASSETS

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

NOTE D – INVENTORY

Inventory consists of the following:

| | |
|----------|---------------------|
| Food | \$ 1,128,502 |
| Shoes | 127,050 |
| Clothing | 680 |
| | <u>\$ 1,256,232</u> |

NOTE E – RETIREMENT SAVINGS PLAN

The Organization has adopted a Simple Plan for the benefit of its employees and contributed \$8,368 to the Plan for the year ended October 31, 2020.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020

NOTE F – 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, 2020 were \$184,270. Future minimum lease commitments are as follows:

| | |
|----------|---------------------|
| Food | \$ 1,128,502 |
| Shoes | 127,050 |
| Clothing | 680 |
| | <u>\$ 1,256,232</u> |

NOTE G – REFUNDABLE ADVANCE (PAYCHECK PROTECTION PROGRAM)

The Organization was granted a \$115,035 loan under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The organization initially recorded the loan as a refundable advance. The Organization also received an Economic Injury Disaster Loan advance of \$10,000. Both advances were forgiven and subsequently recognized as grant revenue in April, 2021, in accordance with guidance for conditional contributions.

NOTE H – LIQUIDITY

The following chart represents the Organization's financial assets available for general expenditures within one year of October 31, 2020:

| | |
|---|-------------------|
| Financial assets at year-end: | |
| Cash and cash equivalents | \$ <u>474,802</u> |
| Total financial assets | 474,802 |
| Less amounts unavailable for general expenditure within one year: | |
| Net assets with donor restrictions | <u>(164,587)</u> |
| Financial assets available to meet cash needs within one year | <u>\$ 310,215</u> |

As part of its liquidity management, the Organization's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 19, 2021, which is the date the financial statements were available to be issued.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2020

NOTE J – UNCERTAINTY

Beginning in March 2020, an outbreak of a coronavirus necessitated that many employees work from home and provided for social distancing measures. The effects of these events may continue for some time, including disruptions to or restrictions on employees' ability to work and on the ability of funders and members to fully participate in programs and continue their current level of financial support to the Organization. At the present time, the ultimate future effects of these issues, if any, are unknown.