

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2021



KERN ▲ THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2021

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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, 2021, 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, 2021, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Birch Community Services, Inc.'s 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 19, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern & Thompson, LLC

Portland, Oregon
August 31, 2022

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

October 31, 2021

(With Comparative Totals as of October 31, 2020)

ASSETS

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 470,069	\$ 474,802
Grants receivable	55,000	89,000
Inventory	1,013,893	1,256,232
Prepaid expenses	15,235	15,235
Total current assets	<u>1,554,197</u>	<u>1,835,269</u>
Property and equipment		
Autos and trucks	477,439	358,223
Equipment and furniture	545,779	434,285
Leasehold improvements	98,804	95,171
	<u>1,122,022</u>	<u>887,679</u>
Less accumulated depreciation	<u>(753,585)</u>	<u>(709,557)</u>
Net property and equipment	<u>368,437</u>	<u>178,122</u>
Total assets	<u>\$ 1,922,634</u>	<u>\$ 2,013,391</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Refundable advances	\$ -	\$ 125,035
Deferred revenue	54,000	54,000
Accrued payroll	61,113	43,138
Total current liabilities	<u>115,113</u>	<u>222,173</u>
Net assets		
Without donor restrictions, restated	1,581,558	1,537,631
With donor restrictions	225,963	253,587
Total net assets	<u>1,807,521</u>	<u>1,791,218</u>
Total liabilities and net assets	<u>\$ 1,922,634</u>	<u>\$ 2,013,391</u>

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended October 31, 2021

(With Comparative Totals for the Year Ended October 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Support and revenue				
Contributions	\$ 418,105	\$ 233,504	\$ 651,609	\$ 574,701
Membership dues	659,259	-	659,259	653,651
Recycling income	23,370	-	23,370	7,751
Investment return	426	-	426	(892)
Other income	13,829	-	13,829	12,947
PPP loan forgiveness	125,035	-	125,035	-
	<u>1,240,024</u>	<u>233,504</u>	<u>1,473,528</u>	<u>1,248,158</u>
Net assets released from restrictions	<u>261,128</u>	<u>(261,128)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,501,152</u>	<u>(27,624)</u>	<u>1,473,528</u>	<u>1,248,158</u>
Operating expenses				
Program services	923,175	-	923,175	853,007
Supporting services				
Management and general	205,011	-	205,011	161,384
Development	86,699	-	86,699	71,868
Total operating expenses	<u>1,214,885</u>	<u>-</u>	<u>1,214,885</u>	<u>1,086,259</u>
Change in net assets from operations	<u>286,267</u>	<u>(27,624)</u>	<u>258,643</u>	<u>161,899</u>
Donated food and clothing	18,885,350	-	18,885,350	20,781,194
Distributed food and clothing	<u>(19,127,690)</u>	<u>-</u>	<u>(19,127,690)</u>	<u>(20,417,994)</u>
Net in-kind food and clothing pass-through activities	<u>(242,340)</u>	<u>-</u>	<u>(242,340)</u>	<u>363,200</u>
Change in net assets	<u>43,927</u>	<u>(27,624)</u>	<u>16,303</u>	<u>525,099</u>
Net assets, beginning of year, restated	<u>1,537,631</u>	<u>253,587</u>	<u>1,791,218</u>	<u>1,266,119</u>
Net assets, end of year	<u>\$ 1,581,558</u>	<u>\$ 225,963</u>	<u>\$ 1,807,521</u>	<u>\$ 1,791,218</u>

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2021

(With Comparative Totals for the Year Ended October 31, 2021)

	PROGRAM SERVICES	SUPPORTING SERVICES		Total	
		Manage- ment and General	Develop- ment	2021	2020
Payroll and payroll taxes	\$ 561,368	\$ 70,171	\$ 70,171	\$ 701,710	\$ 604,709
Employee benefits	42,346	5,294	5,293	52,933	59,666
Grant writing	-	-	7,550	7,550	4,989
Utilities	58,303	14,575	-	72,878	56,440
Supplies and maintenance	11,628	2,136	-	13,764	22,953
Insurance	-	22,729	-	22,729	18,348
Truck and automobile	30,323	7,581	-	37,904	38,664
Office expense	-	23,994	3,685	27,679	20,086
Technology	4,302	4,302	-	8,604	4,532
Postage and delivery	5,200	1,103	-	6,303	10,913
Printing and copying	-	5,098	-	5,098	3,789
Occupancy	165,677	18,408	-	184,085	184,270
Bank fees	-	12,750	-	12,750	10,405
Professional fees	-	16,870	-	16,870	8,778
Depreciation	44,028	-	-	44,028	37,717
Total operating expenses	923,175	205,011	86,699	1,214,885	1,086,259
Value of in-kind distributions	19,127,690	-	-	19,127,690	20,417,994
Total expenses	\$ 20,050,865	\$ 205,011	\$ 86,699	\$ 20,342,575	\$ 21,504,253

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF CASH FLOWS

Year Ended October 31, 2021

(With Comparative Totals for the Year Ended October 31, 2021)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 16,303	\$ 525,099
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	44,028	37,717
Net in-kind donations	242,340	(363,200)
Changes in assets and liabilities:		
Grants receivable	34,000	(82,216)
Prepaid expenses	-	(10,747)
Accounts payable	-	(7,847)
Accrued payroll	17,975	11,163
Deferred revenue	-	9,931
Refundable advances	(125,035)	125,035
Net cash provided by operating activities	<u>229,611</u>	<u>244,935</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(234,344)</u>	<u>(100,819)</u>
Net change in cash	(4,733)	144,116
Cash, beginning of year	<u>474,802</u>	<u>330,686</u>
Cash, end of year	<u>\$ 470,069</u>	<u>\$ 474,802</u>

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 2021

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, 2021

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, 2021, 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.

Contributed Services

A substantial number of volunteers have donated significant amounts of their time to the Organization and its educational programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2021

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 \$219,000 at October 31, 2021.

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	\$ 783,947
Shoes	229,610
Clothing	336
	<u>\$ 1,013,893</u>

NOTE E – RETIREMENT SAVINGS PLAN

The Organization has adopted a Simple Plan for the benefit of its employees and contributed \$11,772 to the Plan for the year ended October 31, 2021.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2021

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, 2021 were \$184,085. Future minimum lease commitments are as follows:

Year Ended October 31,	
2022	\$ 187,242
2023	158,871
	<u>\$ 346,113</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, 2021:

Financial assets at year-end:	
Cash and cash equivalents	\$ 470,069
Grants receivable	<u>55,000</u>
Total financial assets	525,069
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	<u>(225,963)</u>
Financial assets available to meet cash needs within one year	<u>\$ 299,106</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.

BIRCH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2021

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 31, 2022, which is the date the financial statements were available to be issued.

NOTE J – RESTATEMENT OF NET ASSETS

Beginning net assets have been restated to recognize a grant receivable and accrued vacation previously unrecorded at October 31, 2020 as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Net assets, originally reported as of October 31, 2020	\$ 1,555,868	\$ 164,587	\$ 1,720,455
Grant receivable	-	89,000	89,000
Accrued vacation	<u>(18,237)</u>	<u>-</u>	<u>(18,237)</u>
Net assets, restated as of October 31, 2020	<u>\$ 1,537,631</u>	<u>\$ 253,587</u>	<u>\$ 1,791,218</u>

NOTE K – CONDITIONAL GRANTS

At October 31, 2021, the Organization had an available award balance on one private conditional grant totaling \$53,000. This award balance is not recognized as an asset and will be recognized as revenue over a two-year period as grant conditions are satisfied.