

BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2022



BIRCH COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended October 31, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Birch Community Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Birch Community Services, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Birch Community Services, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Birch Community Services, Inc.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Birch Community Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Birch Community Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Birch Community Services, Inc.'s 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated August 31, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern & Thompson, LLC

Portland, Oregon
June 29, 2023

BIRCH COMMUNITY SERVICES, INC.
STATEMENT OF FINANCIAL POSITION

October 31, 2022
(With Comparative Totals as of October 31, 2021)

ASSETS

	2022	2021
Current assets		
Cash and cash equivalents	\$ 499,691	\$ 470,069
Grants receivable	53,000	55,000
Inventory	854,995	1,013,893
Investments	69,895	-
Prepaid expenses	15,870	15,235
Total current assets	1,493,451	1,554,197
Property and equipment		
Autos and trucks	484,327	477,439
Equipment and furniture	622,659	545,779
Leasehold improvements	109,639	98,804
	1,216,625	1,122,022
Less accumulated depreciation	(828,118)	(753,585)
Net property and equipment	388,507	368,437
Total assets	\$ 1,881,958	\$ 1,922,634

LIABILITIES AND NET ASSETS

Current liabilities		
Deferred revenue	64,000	54,000
Accrued payroll	68,181	61,113
Total current liabilities	132,181	115,113
Net assets		
Without donor restrictions, restated	1,583,689	1,581,558
With donor restrictions	166,088	225,963
Total net assets	1,749,777	1,807,521
Total liabilities and net assets	\$ 1,881,958	\$ 1,922,634

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended October 31, 2022

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

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
Support and revenue				
Contributions	\$ 509,172	\$ 214,506	\$ 723,678	\$ 651,609
Membership dues	766,436	-	766,436	659,259
Recycling income	28,562	-	28,562	23,370
Investment return	(4,690)	-	(4,690)	426
Other income	15,711	-	15,711	13,829
PPP loan forgiveness	-	-	-	125,035
	<u>1,315,191</u>	<u>214,506</u>	<u>1,529,697</u>	<u>1,473,528</u>
Net assets released from restrictions	<u>274,381</u>	<u>(274,381)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,589,572</u>	<u>(59,875)</u>	<u>1,529,697</u>	<u>1,473,528</u>
Operating expenses				
Program services	1,110,704	-	1,110,704	923,175
Supporting services				
Management and general	201,375	-	201,375	205,011
Development	116,465	-	116,465	86,699
Total operating expenses	<u>1,428,544</u>	<u>-</u>	<u>1,428,544</u>	<u>1,214,885</u>
Change in net assets from operations	<u>161,028</u>	<u>(59,875)</u>	<u>101,153</u>	<u>258,643</u>
Donated food and clothing	15,290,654	-	15,290,654	18,885,350
Distributed food and clothing	<u>(15,449,551)</u>	<u>-</u>	<u>(15,449,551)</u>	<u>(19,127,690)</u>
Net in-kind food and clothing pass-through activities	<u>(158,897)</u>	<u>-</u>	<u>(158,897)</u>	<u>(242,340)</u>
Change in net assets	2,131	(59,875)	(57,744)	16,303
Net assets, beginning of year, restated	<u>1,581,558</u>	<u>225,963</u>	<u>1,807,521</u>	<u>1,791,218</u>
Net assets, end of year	<u>\$ 1,583,689</u>	<u>\$ 166,088</u>	<u>\$ 1,749,777</u>	<u>\$ 1,807,521</u>

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended October 31, 2022

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

	SUPPORTING SERVICES				
	PROGRAM SERVICES	Manage- ment and General	Develop- ment	Total	
				2022	2021
Payroll and payroll taxes	\$ 667,854	\$ 83,482	\$ 83,482	\$ 834,818	\$ 701,710
Employee benefits	53,455	6,682	6,682	66,819	52,933
Grant writing	-	-	6,966	6,966	7,550
Utilities	56,811	14,203	-	71,014	72,878
Maintenance and repairs	26,380	2,931	-	29,311	13,764
Insurance	-	19,818	-	19,818	22,729
Truck and automobile	59,978	-	-	59,978	37,904
Office expense	-	26,255	19,335	45,590	27,679
Technology	3,748	417	-	4,165	8,604
Postage and delivery	-	561	-	561	6,303
Printing and copying	-	4,179	-	4,179	5,098
Occupancy	167,945	18,661	-	186,606	184,085
Bank fees	-	9,745	-	9,745	12,750
Professional fees	-	14,441	-	14,441	16,870
Depreciation	74,533	-	-	74,533	44,028
Total operating expenses	1,110,704	201,375	116,465	1,428,544	1,214,885
Value of in-kind distributions	15,449,551	-	-	15,449,551	19,127,690
Total expenses	\$ 16,560,255	\$ 201,375	\$ 116,465	\$ 16,878,095	\$ 20,342,575

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

STATEMENT OF CASH FLOWS

Year Ended October 31, 2022

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

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (57,744)	\$ 16,303
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	74,533	44,028
Net in-kind donations	158,897	242,340
Unrealize (gain) loss on investments	5,106	
Changes in assets and liabilities:		
Grants receivable	2,000	34,000
Prepaid expenses	(635)	-
Accrued payroll	7,068	17,975
Deferred revenue	10,000	-
Refundable advances	-	(125,035)
Net cash provided by operating activities	199,225	229,611
Cash flows from investing activities:		
Purchase of investments	(75,000)	-
Purchase of property and equipment	(94,603)	(234,344)
Net cash used in investing activities	(169,603)	(234,344)
Net change in cash	29,622	(4,733)
Cash, beginning of year	470,069	474,802
Cash, end of year	\$ 499,691	\$ 470,069

See notes to financial statements.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 2022

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 900 families and 70 other not-for-profit agencies. 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

Adoption of New Accounting Pronouncements

During the fiscal year ended October 31, 2022, the Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of the ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the Organization. It is important to note that the ASU 2020-07 did not change the accounting and recognition of nonfinancial assets but rather the presentation and disclosure requirements in the financial statements.

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.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory (Continued)

For the year ended October 31, 2022, 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.

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.

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 \$249,800 at October 31, 2022.

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.

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2022

NOTE D – FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 - Quoted prices in active markets for identical assets. Assets in this level typically include publicly traded equities, mutual fund investments and cash equivalents.

Level 2 - Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data such as published interest rates and yield curves, over-the-counter derivatives, market modeling, or other valuation methodologies.

Level 3 - Unobservable inputs that reflect management's assumptions and best estimates based on available data. Assets in this level include beneficial interests in assets held by others.

Realized and unrealized gains and losses from investments 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, 2022 are as follows:

	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	\$ 69,895	\$ -	\$ -	\$ 69,895
Total investments	\$ 69,895	\$ -	\$ -	\$ 69,895

NOTE E – DONATED ASSETS AND SERVICES

The Organization received approximately 11 million pounds of food and grocery products from the food industry, other businesses, community organizations and individuals for the year ended October 31, 2022. The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ending October 31, 2022, approximately 30,000 volunteer hours were provided to assist with warehouse operations. These hours of general volunteer support are not reflected in the financial statements as they do not meet the criteria for recording donated services.

Inventory consists of the following:

Food	\$ 620,523
Boots	230,150
Clothing	4,322
	\$ 854,995

BIRCH COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2022

NOTE F – RETIREMENT SAVINGS PLAN

The Organization has adopted a Simple Plan for the benefit of its employees and contributed \$17,783 to the Plan for the year ended October 31, 2022.

NOTE G – 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, 2022 were \$186,606. Future minimum lease commitments are as follows:

Year Ended October 31,	
2023	\$ <u>158,871</u>
	\$ <u><u>158,871</u></u>

NOTE H – LIQUIDITY

The following chart represents the Organization's financial assets available for general expenditures within one year of October 31, 2022:

Financial assets at year-end:	
Cash and cash equivalents	\$ 499,691
Grants receivable	53,000
Investments	<u>69,895</u>
Total financial assets	622,586
 Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	<u>(166,088)</u>
 Financial assets available to meet cash needs within one year	 \$ <u><u>456,498</u></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 June 29, 2023, which is the date the financial statements were available to be issued.