# THE FOUNDRY MINISTRIES, INC.

## FINANCIAL STATEMENTS

## JUNE 30, 2019 AND 2018

Warren Averett
CPAs AND ADVISORS

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Warren Averett
CPAs AND ADVISORS

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Foundry Ministries, Inc.

**Report on the Financial Statements**
We have audited the accompanying financial statements of The Foundry Ministries, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors consider 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 The Foundry Ministries, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Warren Averett, LLC

Birmingham, Alabama
March 26, 2020

**THE FOUNDRY MINISTRIES, INC.**
**STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2019 AND 2018**

## ASSETS

| | 2019 | 2018 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 208,457 | $ 208,391 |
| Pledges receivable | - | 30,210 |
| Inventory | 227,004 | 193,832 |
| Other current assets | 92,890 | 74,303 |
| Total current assets | 528,351 | 506,736 |
| **PROPERTY AND EQUIPMENT, AT COST, NET OF ACCUMULATED DEPRECIATION** | 4,672,920 | 5,075,223 |
| **OTHER ASSETS** | | |
| Deposits | 39,855 | 39,855 |
| Total other assets | 39,855 | 39,855 |
| **TOTAL ASSETS** | $ 5,241,126 | $ 5,621,814 |

See notes to the financial statements.

**THE FOUNDRY MINISTRIES, INC.**
**STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2019 AND 2018**

## LIABILITIES AND NET ASSETS

| | 2019 | 2018 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Line of credit | $ 350,000 | $ 294,246 |
| Accounts payable | 471,072 | 403,387 |
| Accrued payroll and related taxes | 21,240 | 18,406 |
| Sales tax payable | 37,856 | 38,014 |
| Current portion of long-term debt and capital lease obligation | 323,102 | 299,253 |
| Total current liabilities | 1,203,270 | 1,053,306 |
| **LONG-TERM DEBT** | 1,903,476 | 2,084,593 |
| **CAPITAL LEASE OBLIGATION** | 83,560 | 89,206 |
| **NET ASSETS** | | |
| Without donor restrictions | 2,050,820 | 2,394,709 |
| Total net assets | 2,050,820 | 2,394,709 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 5,241,126 | $ 5,621,814 |

See notes to the financial statements.

**THE FOUNDRY MINISTRIES, INC.**
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**FOR THE YEAR ENDED JUNE 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| Contributions | $ 1,135,812 | $ - | $ 1,135,812 |
| Grants | 199,863 | - | 199,863 |
| Auto center sales | 348,858 | - | 348,858 |
| Bargain center sales | 5,096,136 | - | 5,096,136 |
| Conferences, seminars, and banquets | 410,913 | - | 410,913 |
| Other income | 40,263 | - | 40,263 |
| Program income | 1,021,732 | - | 1,021,732 |
| Loss on sale of property and equipment | (26,872) | - | (26,872) |
| | 8,226,705 | - | 8,226,705 |
| Net assets released from restrictions | - | - | - |
| Total revenue and support | 8,226,705 | - | 8,226,705 |
| **EXPENSES** | | | |
| Auto center | 286,347 | - | 286,347 |
| Bargain center | 3,693,727 | - | 3,693,727 |
| Recovery program | 3,598,463 | - | 3,598,463 |
| Administrative expenses | 336,724 | - | 336,724 |
| Fund-raising expenses | 655,333 | - | 655,333 |
| Total expenses | 8,570,594 | - | 8,570,594 |
| **DECREASE IN NET ASSETS** | (343,889) | - | (343,889) |
| **NET ASSETS AT BEGINNING OF YEAR** | 2,394,709 | - | 2,394,709 |
| **NET ASSETS AT END OF YEAR** | $ 2,050,820 | $ - | $ 2,050,820 |

See notes to the financial statements.

## THE FOUNDRY MINISTRIES, INC.
## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUE AND SUPPORT** | | | |
| Contributions | $ 1,132,662 | $ - | $ 1,132,662 |
| Grants | 221,375 | - | 221,375 |
| Auto center sales | 435,794 | - | 435,794 |
| Bargain center sales | 4,398,685 | - | 4,398,685 |
| Conferences, seminars, and banquets | 469,502 | - | 469,502 |
| Other income | 6,449 | - | 6,449 |
| Program income | 1,216,400 | - | 1,216,400 |
| Farm capital campaign | 28,228 | - | 28,228 |
| | 7,909,095 | - | 7,909,095 |
| Net assets released from restrictions | - | - | - |
| Total revenue and support | 7,909,095 | - | 7,909,095 |
| **EXPENSES** | | | |
| Auto center | 282,544 | - | 282,544 |
| Bargain center | 3,284,725 | - | 3,284,725 |
| Recovery program | 3,902,428 | - | 3,902,428 |
| Administrative expenses | 345,041 | - | 345,041 |
| Fund-raising expenses | 663,957 | - | 663,957 |
| Total expenses | 8,478,695 | - | 8,478,695 |
| **DECREASE IN NET ASSETS** | (569,600) | - | (569,600) |
| **NET ASSETS AT BEGINNING OF YEAR** | 2,964,309 | - | 2,964,309 |
| **NET ASSETS AT END OF YEAR** | $ 2,394,709 | $ - | $ 2,394,709 |

See notes to the financial statements.

# THE FOUNDRY MINISTRIES, INC.
# STATEMENT OF FUNCTIONAL EXPENSES
# FOR THE YEAR ENDED JUNE 30, 2019

| | Auto Center | Bargain Centers | Recovery Program | Administrative Expenses | Fund-Raising Expenses |
|---|---|---|---|---|---|
| Cost of goods sold | $ 40,122 | $ 99,423 | $ 148 | $ - | $ - |
| Advertising | 12,254 | 43,372 | 22,380 | 2,318 | 6,835 |
| Alarm | 833 | 8,908 | 25,883 | 292 | 512 |
| Auto expense | 24,298 | 224,751 | 120,955 | 606 | - |
| Bank charges | 73 | 38 | 333 | 23,700 | - |
| Subscriptions | 4,132 | 20,934 | 33,282 | 3,918 | 13,738 |
| Conferences | - | 34 | 6 | 1,944 | 1,996 |
| Contract labor | - | 54,874 | 12,150 | - | 22,764 |
| Copier | 426 | 11,739 | 3,992 | 290 | 837 |
| Credit card fees | 2,057 | 70,710 | 20 | 854 | 8,051 |
| Curriculum | - | - | 22,369 | 163 | - |
| Donations | - | - | - | 37,500 | - |
| Interest | 367 | 66,027 | 47,151 | 13,627 | 754 |
| Medical expense | - | 25 | 11,957 | 1,297 | - |
| Employee benefits | - | - | - | 7,003 | - |
| Equipment expense | 802 | 38,215 | 13,746 | 390 | 150 |
| Events | - | - | - | - | 114,149 |
| Groceries | 324 | 453 | 513,516 | 500 | 41 |
| Insurance expense | 15,379 | 148,645 | 193,172 | 24,385 | 29,357 |
| Gifts | 112 | 545 | 3,566 | 22,546 | 2,003 |
| Other | 2,842 | 40,849 | 18,777 | 7,696 | 48,912 |
| Salaries and wages | 100,250 | 1,269,291 | 1,603,997 | 49,133 | 233,916 |
| Printing and reproduction | 362 | 4,822 | 2,055 | 313 | 96,190 |
| Professional fees | 42 | 23,675 | 6,349 | 97,185 | 32,400 |
| Rent | 42,000 | 816,491 | 131,790 | - | - |
| Repairs and maintenance | 2,949 | 64,111 | 78,706 | (41) | 669 |
| Supplies | 3,809 | 111,074 | 103,587 | 384 | 4,895 |
| Utilities | 22,320 | 438,307 | 473,673 | 17,675 | 11,020 |
| Travel and entertainment | 16 | 2,422 | 5,466 | 8,941 | 1,461 |
| Depreciation | 10,578 | 133,992 | 149,437 | 14,105 | 24,683 |
| | $ 286,347 | $ 3,693,727 | $ 3,598,463 | $ 336,724 | $ 655,333 |

See notes to the financial statements.

# THE FOUNDRY MINISTRIES, INC.
## STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2018

| | Auto Center | Bargain Centers | Recovery Program | Administrative Expenses | Fund-Raising Expenses |
|---|---|---|---|---|---|
| Cost of goods sold | $ 43,373 | $ 82,870 | $ - | $ - | $ - |
| Advertising | 15,380 | 38,112 | 56,696 | 1,850 | 1,021 |
| Alarm | 453 | 5,852 | 24,328 | - | - |
| Auto expense | 18,823 | 216,577 | 142,645 | - | - |
| Bank charges | - | - | - | 15,683 | - |
| Subscriptions | 2,691 | 10,975 | 25,071 | 3,500 | 11,093 |
| Conferences | - | - | 344 | 4,410 | 3,305 |
| Contract labor | - | 63,192 | 10,600 | - | 14,423 |
| Donation | 646 | 9,348 | 1,212 | - | 1,579 |
| Copier | 2,333 | 1,602 | 55,905 | - | 9,700 |
| Credit card fees | - | - | 15,834 | - | - |
| Curriculum | - | - | 56,250 | - | - |
| Interest | 366 | 65,774 | 46,970 | 13,574 | 751 |
| Medical expense | - | - | 60,343 | - | - |
| Employee benefits | - | - | - | 6,335 | - |
| Equipment expense | 1,586 | 35,738 | 14,566 | - | - |
| Events | - | - | - | - | 110,408 |
| Groceries | - | - | 528,309 | - | - |
| Insurance expense | 15,419 | 152,342 | 232,553 | 21,103 | 30,907 |
| Gifts | - | 170 | 422 | 35,585 | 500 |
| Other | 1,760 | 28,508 | 15,209 | 9,692 | 45,328 |
| Salaries and wages | 94,835 | 1,077,633 | 1,644,558 | 66,619 | 211,597 |
| Printing and reproduction | 470 | 4,451 | 1,677 | 85 | 125,339 |
| Professional fees | - | 29,865 | 100 | 135,846 | 55,849 |
| Rent | 42,000 | 780,571 | 150,440 | - | - |
| Repairs and maintenance | 2,576 | 23,976 | 53,722 | - | - |
| Supplies | 5,176 | 110,057 | 127,584 | 3,253 | 2,474 |
| Utilities | 23,929 | 407,305 | 481,594 | 7,246 | 11,826 |
| Travel and entertainment | 52 | 4,576 | 4,677 | 6,025 | 2,946 |
| Depreciation | 10,676 | 135,231 | 150,819 | 14,235 | 24,911 |
| | $ 282,544 | $ 3,284,725 | $ 3,902,428 | $ 345,041 | $ 663,957 |

See notes to the financial statements.

**THE FOUNDRY MINISTRIES, INC.**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Decrease in net assets | $ (343,889) | $ (569,600) |
| Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 332,795 | 337,221 |
| Loss on sale property and equipment | 26,872 | - |
| Write-off of loan costs | - | 11,013 |
| (Increase) decrease in assets: | | |
| Pledges receivable | 30,210 | (29,400) |
| Inventory | (33,172) | - |
| Other current assets | (18,587) | (36,050) |
| Deposits | - | 2,500 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 67,685 | 179,914 |
| Accrued payroll and related taxes | 2,834 | 7,099 |
| Sales tax payable | (158) | 10,897 |
| Net cash provided by (used in) operating activities | 64,590 | (86,406) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of property and equipment | 155,282 | - |
| Purchases of property and equipment | (38,318) | (926,893) |
| Net cash provided by (used in) investing activities | 116,964 | (926,893) |

See notes to the financial statements.

**THE FOUNDRY MINISTRIES, INC.**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net change on line of credit | $ 55,754 | $ 62,474 |
| Proceeds from borrowings | - | 1,000,000 |
| Repayment of long-term debt and capital lease obligations | (237,242) | (225,935) |
| Net cash provided by (used in) financing activities | (181,488) | 836,539 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 66 | (176,760) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 208,391 | 385,151 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 208,457 | $ 208,391 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION** | | |
| Cash paid during the year for interest | $ 120,934 | $ 115,073 |
| **SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS** | | |
| Refinancing of long-term debt through additional long-term debt | $ - | $ 1,531,114 |
| Purchase of equipment through assumption of capital lease obligation and long-term debt | $ 74,328 | $ 71,435 |

See notes to the financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations**
The Foundry Ministries, Inc. (the Organization) operates a nonprofit, Christ-centered rescue mission, long-term addiction recovery center, and re-entry program. Located in Bessemer, Alabama, the ministry provides shelter, food, and clothing to more than 300 men and women in their 12- to 14-month residential recovery program at minimal cost to the individual. The Organization's outside support comes primarily from individual donors' contributions. The Organization also derives a significant portion of its revenue from operating four bargain centers.

**Basis of Financial Statement Preparation**
The Organization uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

**Use of Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Financial Statement Presentation**
The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets include contributed net assets for which donor imposed time restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

**Contributions**
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions are generally available for unrestricted use during the year unless specifically restricted by the donor.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. The Organization has chosen to show restricted contributions when restrictions are met in the same reporting period as unrestricted support.

Contributions of donated noncash assets are recorded at their fair values in the period received.

**Functional Allocation of Expenses**
The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity date of three months or less when purchased to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

### Inventory

Inventory, consisting of vehicles held-for-sale and donated inventory in the thrift stores, is recorded at fair market value at the time the inventory is contributed.

The Organization receives contributions of goods and materials (inventory) and processes these contributions as merchandise available-for-sale in its retail thrift stores. Financial accounting standards require that contributions received be recognized as revenues or gains in the period received as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Contributions are measured at fair value.

The Organization believes that the inventory of the contributed goods and materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, contributed goods and materials inventory are valued at zero prior to being offered for sale. The Organization considers the costs associated with bringing the donated inventory to sale (i.e., donation collection, transportation, sorting, and pricing expenses) in its estimate of the fair value of inventory.

### Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated market value at the date of gift. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts, and any gain or loss is reflected in operations. Depreciation is provided using the straight-line and accelerated methods based on the following estimated useful lives:

| | |
|---|---|
| Furniture, fixtures, and equipment | 3 - 10 years |
| Vehicles | 5 - 10 years |
| Buildings and improvements | 5 - 40 years |

### Intangibles

Loan costs consist of expenditures related to issuing the secured long-term debt and are included as a reduction of long-term debt in the accompanying financial statements. These costs are being amortized on a straight-line basis over the life of the secured long-term debt. Amortization expense totaled $0 for the year ended June 30, 2019 ($1,349 for the year ended June 30, 2018).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and knowledge of circumstances that may affect the ability of clients to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At June 30, 2019 and 2018, the allowance for doubtful accounts was $-0-. Accounts receivable is categorized in other current assets at June 30, 2019, totaling $78,824 ($49,716 at June 30, 2018).

### Fair Value Measurements

The Organization applies the guidance issued by the Financial Accounting Standards Board (FASB) regarding fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This guidance also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this guidance, fair value measurements are disclosed by level within that hierarchy.

### Taxes Assessed by Governmental Authorities on Revenue

The Organization collects sales taxes from customers and remits these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from revenues and cost of sales.

### Tax Status

The Organization's revenues are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, except for amounts representing unrelated business revenues.

### Uncertain Tax Positions

The Organization applies authoritative guidance relating to uncertainty in income taxes. This guidance requires entities to assess their tax positions for the likelihood that they would be overturned upon Internal Revenue Service (IRS) examination or upon examination by state taxing authorities. In accordance with this guidance, the Organization has assessed its tax positions and determined that it does not have any positions at June 30, 2019 and 2018, that it would be unable to substantiate. Under statute, the Organization is subject to IRS and state taxing authority review for tax years 2017 through 2018. The Organization has filed tax returns through 2018.

### Advertising

Advertising costs are expensed as incurred. Advertising expenses totaled $87,159 for the year ended June 30, 2019 ($113,059 for the year ended June 30, 2018).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### New Accounting Standards – Adopted

The FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), in August 2016. The objective of this standard is to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The standard did not have a significant impact to the Organization's financial statements and was retroactively applied to the 2018 financial statements.

### Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Organization is currently evaluating the effect that the provisions of ASU No. 2014-09 will have on the Organization's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), increasing the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Organization is currently evaluating the effect that the provisions of ASU No. 2016-02 will have on the Organization's financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230) *Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early application of the amendments in this update is permitted. The Organization is currently evaluating the effect that the provisions of ASU No. 2016-15 will have on the Organization's financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. For nonpublic entities, the amendments are effective for transactions in which the entity serves as a resource recipient for annual periods beginning after December 15, 2018. The Organization is currently evaluating the effect that the provisions of ASU No. 2018-08 will have on the Organization's financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Reclassification**
Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

**Subsequent Events**
Management has evaluated subsequent events and their potential effects on these financial statements through March 26, 2020.

## 2. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Receivable in less than one year | $ - | $ 30,210 |
| Total pledges receivable | - | 30,210 |
| Less allowance for uncollectible pledges receivable | - | - |
| | $ - | $ 30,210 |

## 3. PROPERTY AND EQUIPMENT

Additions or deletions to property and equipment at June 30, 2019, are summarized by major classifications as follows:

| | June 30, 2018 | 2019 Additions | 2019 Disposals | 2019 Transfers | June 30, 2019 |
|---|---|---|---|---|---|
| Furniture, fixtures, and equipment | $ 1,550,647 | $ 97,982 | $ (3,055) | $ - | $ 1,645,574 |
| Vehicles | 307,516 | - | - | - | 307,516 |
| Buildings and improvements | 5,807,942 | 14,664 | (143,835) | - | 5,678,771 |
| Land | 289,047 | - | (47,990) | - | 241,057 |
| | $ 7,955,152 | $ 112,646 | $ (194,880) | $ - | 7,872,918 |
| Less accumulated depreciation | | | | | 3,199,998 |
| | | | | | $ 4,672,920 |

## 3. PROPERTY AND EQUIPMENT – CONTINUED

Additions or deletions to property and equipment at June 30, 2018, are summarized by major classifications as follows:

| | June 30, 2017 | 2018 Additions | 2018 Disposals | 2018 Transfers | June 30, 2018 |
|---|---|---|---|---|---|
| Furniture, fixtures, and equipment | $ 1,327,009 | $ 223,638 | $ - | $ - | $ 1,550,647 |
| Vehicles | 289,591 | 17,925 | - | - | 307,516 |
| Buildings and improvements | 4,796,394 | 756,765 | - | 254,783 | 5,807,942 |
| Land | 289,047 | - | - | - | 289,047 |
| | $ 6,702,041 | $ 998,328 | $ - | $ 254,783 | 7,955,152 |
| Less accumulated depreciation | | | | | 2,879,929 |
| | | | | | $ 5,075,223 |

Depreciation expense totaled $332,795 for the year ended June 30, 2019 ($335,872 for the year ended June 30, 2018).

## 4. REVOLVING LINE OF CREDIT

At June 30, 2019, the Organization had a $350,000 revolving line of credit with a financial institution. The revolving line of credit is unsecured. The revolving line of credit is subject to renewal in May 2020. Interest on the revolving line of credit accrues at the bank's prime rate and is payable monthly. The actual rate charged was 6.00% and 5.00% at June 30, 2019 and 2018, respectively. At June 30, 2019, the balance outstanding under the revolving line-of-credit agreement was $350,000 ($294,246 as of June 30, 2018).

## 5. LONG-TERM DEBT

Long-term debt at June 30, 2019 and 2018, consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| 4.25% note payable – bank, due in monthly installments of $9,818, including interest, maturing with a balloon payment due in December 2022, uncollateralized | $ 1,185,455 | $ 1,251,408 |
| 4.25% note payable – bank, due in monthly installments of $10,244, including interest, maturing with a balloon payment due in March 2023, uncollateralized | 874,250 | 958,077 |
| 8% note payable – individual, due on demand plus monthly interest payments, uncollateralized | 75,000 | 75,000 |
| 8% note payable – individual, due in monthly installments of $2,350, including interest, maturing in May 2020, uncollateralized | 21,423 | 49,961 |
| | 2,156,128 | 2,334,446 |
| Less current portion | 252,652 | 249,853 |
| | $ 1,903,476 | $ 2,084,593 |

Following is a summary of principal maturities of long-term debt for each of the next four years:

| | |
|---|---|
| 2020 | $ 252,652 |
| 2021 | 163,000 |
| 2022 | 170,064 |
| 2023 | 1,570,412 |
| | $ 2,156,128 |

## 6. CAPITAL LEASE OBLIGATION

In 2019, the Organization entered into a capital lease obligation related to equipment with an original cost of $11,900 and an imputed interest rate of 7.38%. Under the terms of the capital lease obligation, payments are due in monthly installments including interest through December 2021. The capital lease is collateralized by the equipment and is being amortized over its estimated productive life. The outstanding balance at June 30, 2019, was $9,917.

In 2019, the Organization entered into a capital lease obligation related to equipment with an original cost of $62,428 and an imputed interest rate of 14.98%. Under the terms of the capital lease obligation, payments are due in monthly installments including interest through November 2022. The capital lease is collateralized by the equipment and is being amortized over its estimated productive life. The outstanding balance at June 30, 2019, was $55,341.

In 2018, the Organization entered into a capital lease obligation related to equipment with an original cost of $11,900 and an imputed interest rate of 8.48%. Under the terms of the capital lease obligation, payments are due in monthly installments including interest through September 2020. The capital lease is collateralized by the equipment and is being amortized over its estimated productive life. The outstanding balance at June 30, 2019, was $5,289 ($9,256 at June 30, 2018).

In 2018, the Organization entered into a capital lease obligation related to equipment with an original cost of $59,535 and an imputed interest rate of 7.725%. Under the terms of the capital lease obligation, payments are due in monthly installments including interest through August 2020. The capital lease is collateralized by the equipment and is being amortized over its estimated productive life. The outstanding balance at June 30, 2019, was $23,153 ($42,997 at June 30, 2018).

In 2017, the Organization entered into a capital lease obligation related to equipment with an original cost of $131,566 and an imputed interest rate of 6.84%. Under the terms of the capital lease obligation, payments are due in monthly installments including interest through July 2021. The capital lease is collateralized by the equipment and is being amortized over its estimated productive life. The outstanding balance at June 30, 2019, was $60,310 ($86,353 at June 30, 2018).

Scheduled principal and interest repayments on the capital lease obligations are as follows:

| | Principal | Interest |
|---|---|---|
| 2020 | $ 70,450 | $ 12,782 |
| 2021 | 52,797 | 7,243 |
| 2022 | 22,658 | 3,405 |
| 2023 | 8,105 | 317 |
| | $ 154,010 | $ 23,747 |

## 7. RETIREMENT PLAN

The Organization sponsors a 401(k) plan for its full-time employees. Contributions made by the Organization are at the discretion of the Organization. During 2019, the Organization contributed $3,115 to the plan ($3,242 in 2018).

## 8. COMMITMENTS AND CONTINGENCIES

Total lease expense for all operating leases for the year ended June 30, 2019, amounted to $1,193,050 ($1,159,695 for the year ended June 30, 2018).

The Organization leases office space, thrift stores, and various pieces of equipment under operating lease agreements. Minimum future rentals under noncancellable leases having terms in excess of one year as of June 30 for each of the next five years are as follows:

| | |
|---|---|
| 2020 | $ 871,472 |
| 2021 | 883,126 |
| 2022 | 641,171 |
| 2023 | 72,628 |
| 2024 | 2,160 |
| | $ 2,470,557 |

From time to time, the Organization is subjected to various lawsuits that arise in the ordinary course of its business. As of June 30, 2019, management believes that the ultimate resolution of these pending legal proceedings will not have a material effect on the Organization’s results of operations, financial positions, or cash flows.

## 9. LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Organization's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash with within one year, trust assets, assets held for others, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board designated endowments. These board designations could be drawn upon if board approves that action.

| | 2019 | 2018 |
|---|---|---|
| **Financial assets, at year end*** | $ 287,281 | $ 288,317 |
| Less: Assets unavailable for general expenditures within one year: | - | - |
| Total financial assets unavailable for general expenditure within one year | - | - |
| **Financial assets available to meet cash needs for general expenditures within one year** | $ 287,281 | $ 288,317 |

* Total assets, less nonfinancial assets (e.g., PP&E, inventory, prepaids)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has access to a $350,000 line of credit with an interest rate of 6.00%. As of June 30, 2019 and 2018, there was an outstanding balance of $350,000 and $294,246, respectively.

## 10. UNCERTAINTY

Subsequent to June 30, 2019, local, United States of America, and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Organization as of March 26, 2020, management believes that a material impact on the Organization's financial position and results of future operations is reasonably possible.