

NORTH KENT CONNECT

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2021

*Goodlander, Swett & Rybicki
Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Kent Connect
Rockford, MI

Report on the Financial Statements

We have audited the accompanying financial statements of North Kent Connect (NKC), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expense and cash flows for the year 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

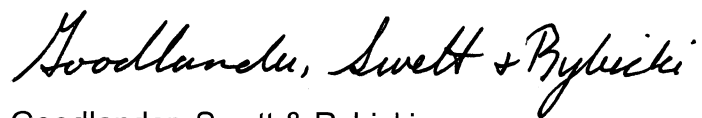
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the 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 North Kent Connect as of June 30, 2021, and the results of their activities and their cash flows for the year ended, in accordance with accounting principles generally accepted in the United States of America.



Goodlander, Swett & Rybicki
Certified Public Accountants

December 8, 2021

NORTH KENT CONNECT

STATEMENT OF FINANCIAL POSITION

June 30, 2021

ASSETS

Cash and cash equivalents	\$ 1,696,334
Contributions receivable, net	158,679
Undistributed gift card inventory	41,377
Prepaid expenses	10,175
Inventory	297,705
Construction in progress	58,263
Land	230,000
Building	3,130,863
Building Improvements	79,194
Ground Improvements	75,921
Sign	27,473
Vehicle	29,170
Furniture and equipment	163,431
Less Accumulated Depreciation	<u>(524,225)</u>

TOTAL ASSETS \$ 5,474,360

LIABILITIES AND NET ASSETS

Accrued liabilities \$ 210,523

Net Assets:

Without donor restrictions	4,294,807
With donor restrictions	<u>969,030</u>

TOTAL NET ASSETS 5,263,837

TOTAL LIABILITIES AND NET ASSETS \$ 5,474,360

See Notes to Financial Statements

NORTH KENT CONNECT
STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Contributions and grants	\$ 1,063,242	\$ 1,144,098	\$ 2,207,340
Senior meals program	15,000	-	15,000
Investment income	9,640	-	9,640
Sale of merchandise	264,581	-	264,581
Room rental	3,600	-	3,600
Recycling income	10,247	-	10,247
Paycheck Protection Program loan forgiveness	123,787	-	123,787
Net assets released from restrictions:			
Satisfaction of donor restrictions	2,907,430	(2,907,430)	-
Total operating support and revenue	<u>4,397,527</u>	<u>(1,763,332)</u>	<u>2,634,195</u>
Expenses			
Programs	1,455,214	-	1,455,214
Management and general	143,728	-	143,728
Fund Raising	185,476	-	185,476
Total expenses	<u>1,784,418</u>	<u>-</u>	<u>1,784,418</u>
Increase (decrease) in net assets	2,613,109	(1,763,332)	849,777
Net assets at beginning of year	<u>1,681,698</u>	<u>2,732,362</u>	<u>4,414,060</u>
Net assets at end of year	<u>\$ 4,294,807</u>	<u>\$ 969,030</u>	<u>\$ 5,263,837</u>

See Notes to Financial Statements.

NORTH KENT CONNECT

Statement of Functional Expenses

Year Ended June 30, 2021

	Program	Management and General	Fund Raising	Total Expenses
Salaries	\$ 394,434	\$ 75,407	\$ 110,210	\$ 580,051
Employee benefits	59,190	11,316	16,538	87,044
Payroll taxes	31,206	5,966	8,719	45,891
TOTAL PERSONNEL EXPENSES	484,830	92,689	135,467	712,986
Assistance to individuals	431,502	-	-	431,502
Cost of sales	264,616	-	-	264,616
Senior meals direct expense	4,915	-	-	4,915
Occupancy	81,479	4,526	4,526	90,531
Accounting fees	5,280	660	660	6,600
Professional fees	3,508	8,812	5,804	18,124
Telephone	1,754	97	97	1,948
Postage	-	-	1,749	1,749
Computer and technology	7,880	1,506	2,202	11,588
Travel	1,310	138	188	1,636
Seminars	1,265	278	-	1,543
Depreciation expense	57,363	3,187	3,187	63,737
Office expense	72,344	25,564	5,496	103,404
Insurance	16,894	2,178	2,267	21,339
Marketing expense	11,117	1,903	20,510	33,530
Other expenses	9,157	2,190	3,323	14,670
Total Expenses by Function	\$ 1,455,214	\$ 143,728	\$ 185,476	\$ 1,784,418

See Notes to Financial Statements.

NORTH KENT CONNECT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

OPERATING ACTIVITIES

Increase in net assets \$ 849,777

Adjustments to reconcile change in net assets to
cash provided (used) by operating activities:

Depreciation 63,737

(Increase) decrease in assets:

Contributions receivable 384,698

Undistributed gift card inventory (24,712)

Loss on disposal of asset 2,305

Prepaid expenses (5,205)

Inventory 32,073

Decrease in liabilities:

Accrued liabilities (48,871)

NET CASH PROVIDED BY OPERATING ACTIVITIES 1,253,802

INVESTING ACTIVITIES

Purchase of fixed assets (1,915,102)

NET CASH USED BY INVESTING ACTIVITIES (1,915,102)

FINANCING ACTIVITIES

Paycheck Protection Loan forgiveness (123,787)

NET CASH USED BY FINANCING ACTIVITIES (123,787)

NET DECREASE IN CASH (785,087)

Cash and cash equivalents
at beginning of year

2,481,421

CASH AND CASH EQUIVALENTS
AT END OF YEAR

\$ 1,696,334

Supplementary data:

Interest paid

\$ -0-

See Notes to Financial Statements.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE A – NATURE OF ACTIVITIES

North Kent Connect (NKC) is a Christian organization committed to improving the lives of all people in northern Kent County by providing access to basic needs and promoting economic independence.

North Kent Connect operates a thrift store that has been open for approximately four years. The thrift store is available to all clients and is open to the public. All items for sale in the store have been donated and are for sale at significantly discounted prices. The store is part of NKC's program activities. All profits are used in its mission to provide the necessities for our clients and for programming that helps promote economic independence.

At the close of the year ended June 30, 2021, NKC exceeded its \$2.9 million capital campaign to build a 12,400 square foot addition. Staff moved to the new wing in January 2021 and the thrift store reopened in March 2021. Final construction was completed in June 2021 for a total cost of \$3.03 million with \$3.5 million raised.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in checking, savings, money market and certificates of deposit accounts.

Currently, NKC's cash balances exceeds the insured limit. The risk is mitigated by actively managing existing accounts in accordance with current Federal Deposit Insurance Corporation (FDIC) limits and by maintaining deposits in high quality financial institutions. The NKC Finance Committee is drafted an Investment Policy in order to apportion its cash into more than one financial institution.

Promises to give

We record unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to give (Continued)

In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. We determine the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

There is no amount of uncollectable promises to give written off for the year ended June 30, 2021.

Property and equipment

We record property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2021.

Net assets

Resources are classified for accounting and reporting purposes according to their nature and purposes as follows:

Net Assets Without Donor Restrictions - Includes all resources over which NKC's board of directors has discretionary control in carrying on the operations of NKC in accordance with the limitations of its charter and bylaws. All public support and revenue are considered to be available for unrestricted use unless specifically restricted by the donor.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net assets (Continued)

Net Assets With Donor Restrictions – consist of net assets that are subject to donor imposed stipulations that may or will be met either by actions of NKC or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue and revenue recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue for the retail store is recognized when the customer receives and pays for merchandise.

NKC sponsors fund-raising events in order to generate necessary operating funds. Income from special events is recognized as it is received and is recorded net of direct costs.

Donated Services and in-kind contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Contributed goods that are not food donations are recorded at fair value at the date of donation. NKC records donated professional services at the respective fair values of the services received.

Advertising costs

Advertising costs are expensed as incurred, and approximate \$33,530 for the year ended June 30, 2021.

NORTH KENT CONNECT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2021

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional allocation of expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of NKC.

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 date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

NOTE C - LIQUIDITY AND AVAILABILITY

NKC receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. NKC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

As of June 30, 2021, the following tables show the total financial assets held by North Kent Connect and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets:	<u>2021</u>
Cash and cash equivalents	\$ 1,696,334
Contributions receivable, net	<u>158,679</u>
Total financial assets	1,855,013
Less amounts not available to be used within one year:	
Contributions receivable due after one year, net	(113,981)
Less amounts with restrictions:	
Board designated-restricted cash	(309,165)
With donor restrictions-restricted cash	<u>(834,232)</u>
Total not available	<u>(1,143,397)</u>
Financial assets available to meet general expenditures over the next twelve months:	\$ 711,616
	=====

NORTH KENT CONNECT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2021

NOTE D – TAX STATUS

NKC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. NKC has adopted the provisions of FASB Codification 740, Accounting for Income Taxes. Management believes that no material uncertain tax positions exist. Therefore, no liability for unrecognized tax exposures has been recorded. With few exceptions, NKC is no longer subject to tax examinations before 2015.

NOTE E – FAIR VALUE MEASUREMENTS AND DISCLOSURES

NKC reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1* - Quoted prices for identical assets or liabilities in active markets to which NKC has access at the measurement date.
- *Level 2* - Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, NKC measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. The following methods and assumptions were used by NKC in estimating its fair value disclosures for financial instruments.

Cash and cash equivalents, receivables and payables: The carrying amounts reported in the Statement of Financial Position approximate fair value because of the short maturities of those instruments.

NOTE F – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are estimated to be collected as follows at June 30, 2021:

1 year or less	\$ 44,698
2 to 5 years	<u>120,000</u>
	164,698
Less discount to net present value at 3.5% discount rate	(6,019)
Total Contributions receivable, net	<u>\$ 158,679</u> =====

NORTH KENT CONNECT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2021

NOTE G – INVENTORY

Inventory consists of donated clothing and household goods held for sale in NKC's thrift store. Clothing and household goods are recorded at the time of sale in the store at cost. For inventory still located in the warehouse and on the store floor, an average price per gaylord is used to estimate inventory. The average price per gaylord is determined by the counting of items in two gaylords. The assigned value is determined based on the sale price in the store. A physical inventory is conducted by the staff at year end and adjusted for sales in the store to reflect estimated inventory at June 30, 2021.

NOTE H – UNEARNED REVENUE

Unearned revenue represents revenue collected but not earned as of June 30, 2021. Unearned revenues arise when NKC receives resources before a service, activity, or event is performed for which the resources were received. In subsequent periods, when recognition criteria are met, the liability for unearned revenues is removed and revenues are recorded. There is no balance for unearned revenue at June 30, 2021.

NOTE I – NET ASSETS

Net assets with donor restrictions were as follows for the year ended June 30, 2021:

Specified Purpose:	
Empowerment program	\$ 8,874
Personal care items	14,598
Repair & maintenance and emergency expense fund	37,388
DEI, Strategic Planning & Technology	9,095
Farm Stand Expansion	31,000
Food market	33,152
Other client assistance (utilites, repairs, etc.)	53,282
Capital campaign	781,641
	<u>\$ 969,030</u>

Net assets without donor restrictions for the year ended June 30, 2021 are as follows:

Undesignated	\$ 3,985,642
Board designated-reserve	309,165
	<u>\$ 4,294,807</u>

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021

NOTE J – RENTAL INCOME

North Kent Connect rents office space to two organizations. One has been leasing since 2006 and is currently month to month with a lease agreement that renews every year. The second organization has been leasing since 2017. The lease agreement was not renewed but the organization is currently leasing month to month. Total rental income is \$3,600 for the year ending June 30, 2021. Both organizations suspended using the leased space in March 2020 due to COVID-19 but are expected to begin using their leased spaces once COVID-19 numbers decrease to insignificant levels.

NOTE K – DONATED GOODS AND SERVICES

A substantial portion of the operations of North Kent Connect consists of receiving and disbursing donated goods and services to people of the community who are in need. NKC received donated food, clothing, furniture, household goods, and equipment. These in-kind donations are recorded as inventory, revenues, cost of goods sold and expenses.

Donated equipment for use at NKC is valued at estimated fair market values.

Clothing, furniture, and household goods are valued when sold in the thrift store or given to clients based on thrift store market analysis.

Food is valued at estimated fair market values. North Kent Connect logs and weighs all food received and assigns a fair value to the donation based on its weight. Donations are assigned a value based on the average price per pound. The fair market value of donated food is valued using \$1.67 per pound value according to the June 2016 Feeding America's Product Valuation Survey, as compiled by KPMG.

Donated professional services which include snow plowing, repair and maintenance, and technology services are reflected in the financial statements at their fair market value.

Total in-kind contributions are \$414,253 for the year ending June 30, 2021.

Other miscellaneous in-kind donations consist of mileage, professional services and equipment donated to NKC. The total value of these donations is \$1,012.

Volunteers donated approximately 2,733 hours during the year ending June 30, 2021, to NKC's program services; however, these donated services are not reflected in the financial statements since these services do not require specialized skills.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021

NOTE L – PAYCHECK PROTECTION PROGRAM

On April 24, 2020, North Kent Connect received loan proceeds in the amount of \$123,787 under the Paycheck Protection Program (PPP). Established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES” Act), the PPP provides for loans to qualifying organizations and businesses in amounts up to 2.5 times their average monthly payroll expenses.

PPP loans and accrued interest are forgivable after a “covered period” (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1% with deferral of payments for 10 months after the end of the covered period.

North Kent Connect was granted forgiveness on their PPP loan from the SBA on January 22, 2021. The Organization has recorded income of \$123,787 as of June 30, 2021 as a result of the forgiveness.

NOTE M – RISKS AND UNCERTAINTIES

As of June 30, 2021, the COVID-19 pandemic continues to present economic uncertainties which could impact the Organization. The potential financial impact and duration of impact is unknown at this time.

NOTE N – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 8, 2021, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021

NOTE O – UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing essential information about leasing transactions. Under ASU 2016-02, lessees will be required to bring substantially all leases onto their balance sheets by recording a right-of-use asset and lease liability. Expense will be recognized on a straight-line basis for an operating lease. Recognition of expense for a finance lease will be similar to the current treatment of capital leases. The requirements of ASU 2016-02 are effective for North Kent Connect's fiscal year ending June 30, 2022. North Kent Connect is currently evaluating the impact of this pronouncement.

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07 on Topic 958, *Presentation and disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The FASB ASU requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. Under the new standard's requirements, gifts-in-kind are to be presented as a separate line item, instead of remaining grouped among contributions of cash or other financial assets, on the statement of activities. Additionally, gifts-in-kind are to be disaggregated into categories based on the type of gift received, with the following disclosures made for each category:

- i. Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period
- ii. The NFP's policy (if any about monetizing rather than utilizing contributed nonfinancial assets
- iii. A description of any donor-imposed restrictions associated with the contributed
- iv. A description of the valuation techniques and inputs used to arrive at fair value measurement, in accordance with the requirements in *Topic 820, Fair Value Measurement*, at initial recognition.
- v. The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

The FASB ASU requires the new standard to be applied retrospectively, with amendments taking effect for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022.