

# **FOR KIDS, INC. AND SUBSIDIARIES**

## **CONSOLIDATED FINANCIAL AND COMPLIANCE REPORTS**

**JUNE 30, 2022**



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ASSURANCE, TAX & ADVISORY SERVICES

# **FORKIDS, INC. AND SUBSIDIARIES**

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
ForKids, Inc. and Subsidiaries

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of ForKids, Inc. and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. 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 the Organization 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 the Organization'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 GAAS and *Government Auditing Standards* (GAS) 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 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.

In performing an audit in accordance with GAAS and GAS, 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 the Organization'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 the Organization'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 the Organization's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as included in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*PBMares, LLP*

Newport News, Virginia  
March 3, 2023

## **CONSOLIDATED FINANCIAL STATEMENTS**

## FORKIDS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION June 30, 2022 (With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 3,187,415	\$ 1,803,378	\$ 4,990,793	\$ 4,989,788
Inventory	-	-	-	60,003
Grants receivable	1,012,709	-	1,012,709	1,726,142
Accounts receivable	58,115	176,325	234,440	439,823
Pledges receivable, net, current portion	-	491,087	491,087	1,730,464
Prepaid expenses	52,613	-	52,613	70,716
<b>Total current assets</b>	<b>4,310,852</b>	<b>2,470,790</b>	<b>6,781,642</b>	<b>9,016,936</b>
Property and Equipment, net	<b>19,210,295</b>	<b>315,000</b>	<b>19,525,295</b>	<b>20,584,847</b>
Noncurrent Assets				
Marketable securities	882,677	2,221,700	3,104,377	714,019
Pledges receivable, net, long-term portion	-	91,503	91,503	229,590
Deposits	9,077	-	9,077	13,460
<b>Total noncurrent assets</b>	<b>891,754</b>	<b>2,313,203</b>	<b>3,204,957</b>	<b>957,069</b>
<b>Total assets</b>	<b>\$ 24,412,901</b>	<b>\$ 5,098,993</b>	<b>\$ 29,511,894</b>	<b>\$ 30,558,852</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable	\$ 71,057	\$ -	\$ 71,057	\$ 243,873
Escrow liability	-	15,811	15,811	10,071
Accrued expenses	217,206	-	217,206	1,270,327
<b>Total current liabilities</b>	<b>288,263</b>	<b>15,811</b>	<b>304,074</b>	<b>1,524,271</b>
<b>Total liabilities</b>	<b>288,263</b>	<b>15,811</b>	<b>304,074</b>	<b>1,524,271</b>
Net Assets	<b>24,124,638</b>	<b>5,083,182</b>	<b>29,207,820</b>	<b>29,034,581</b>
<b>Total liabilities and net assets</b>	<b>\$ 24,412,901</b>	<b>\$ 5,098,993</b>	<b>\$ 29,511,894</b>	<b>\$ 30,558,852</b>



## FORKIDS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF ACTIVITIES Year Ended June 30, 2022 (With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support				
Federal agencies	\$ -	\$ 3,494,556	\$ 3,494,556	\$ 8,479,113
Contributions	2,933,371	401,361	3,334,732	2,574,974
Capital campaign	-	506,000	506,000	993,670
Government grants	-	1,042,622	1,042,622	1,263,142
Donated goods and services	-	291,455	291,455	182,010
United Way	213,137	99,319	312,456	344,391
<b>Total</b>	<b>3,146,508</b>	<b>5,835,313</b>	<b>8,981,821</b>	<b>13,837,300</b>
Net assets released from restrictions:				
Satisfaction of restrictions	6,339,009	(6,339,009)	-	-
<b>Total support</b>	<b>9,485,517</b>	<b>(503,696)</b>	<b>8,981,821</b>	<b>13,837,300</b>
Revenue:				
Fundraising events (net of expenses of \$263,278 and \$122,346 for June 30, 2022 and 2021, respectively)	1,257,094	-	1,257,094	1,325,363
Interest and dividends	24,305	-	24,305	27,890
Rent and program fees	179,328	-	179,328	144,792
Thrift store sales	-	-	-	178
Realized/unrealized gain (loss) on marketable securities	(342,832)	-	(342,832)	202,381
Gain (loss) on sale of assets	264,964	-	264,964	(29,104)
Miscellaneous	476	-	476	-
<b>Total revenue</b>	<b>1,383,335</b>	<b>-</b>	<b>1,383,335</b>	<b>1,671,500</b>
<b>Total support and revenue</b>	<b>10,868,852</b>	<b>(503,696)</b>	<b>10,365,156</b>	<b>15,508,800</b>
Functional Expenses				
Program services	9,110,372	-	9,110,372	12,531,072
Management and general	457,446	-	457,446	620,895
Fundraising	624,099	-	624,099	815,741
<b>Total functional expenses</b>	<b>10,191,917</b>	<b>-</b>	<b>10,191,917</b>	<b>13,967,708</b>
<b>Change in net assets</b>	<b>676,935</b>	<b>(503,696)</b>	<b>173,239</b>	<b>1,541,092</b>
Net Assets, beginning of year	23,447,703	5,586,878	29,034,581	27,493,489
Net Assets, end of year	\$ 24,124,638	\$ 5,083,182	\$ 29,207,820	\$ 29,034,581

## FORKIDS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES Year Ended June 30, 2022 (With Comparative Totals for 2021)

	Program Services	Management and General	Fundraising	2022 Total	2021 Total
Bad Debt (Recoveries)	\$ (20,761)	\$ -	\$ -	\$ (20,761)	\$ 41,108
Depreciation	759,478	-	-	759,478	328,682
Donated Goods and Services	271,455	-	-	271,455	164,390
Dues and Subscriptions	-	-	-	-	6,498
Employee Benefits	499,813	35,281	52,921	588,015	577,208
Food	84,529	-	7,700	92,229	-
Fundraising	-	-	20,236	20,236	-
Housing Assistance	1,621,685	-	-	1,621,685	6,708,760
Insurance	58,030	-	-	58,030	84,594
Inventory Write Off	60,003	-	-	60,003	-
Marketing and Advertising	-	-	-	-	4,325
Miscellaneous	175,002	17,393	6,435	198,830	133,824
Payroll Taxes	294,679	20,801	31,201	346,681	327,555
Postage	4,016	-	-	4,016	7,455
Printing and Publication	42,710	6,532	1,005	50,247	49,696
Professional Fees	317,318	16,100	32,886	366,304	218,518
Program Services	142,349	-	-	142,349	32,220
Rent	5,000	10,249	-	15,249	183,524
Repairs and Maintenance	282,206	31,356	-	313,562	169,271
Salaries	3,934,151	277,705	416,557	4,628,413	4,311,144
Security	-	1,750	348	2,098	3,800
Supplies	63,556	6,729	4,486	74,771	125,292
Taxes and Licenses	11,502	-	-	11,502	2,154
Technology	111,892	7,898	11,847	131,637	194,607
Telephone/Internet	54,680	3,860	5,790	64,330	86,921
Training	37,280	2,631	3,947	43,858	29,425
Travel/Employee Reimbursement	34,093	2,407	3,610	40,110	21,827
Utilities	237,343	16,754	25,130	279,227	145,184
Vehicle Maintenance	28,363	-	-	28,363	9,726
<b>Total functional expenses</b>	<b>\$ 9,110,372</b>	<b>\$ 457,446</b>	<b>\$ 624,099</b>	<b>\$ 10,191,917</b>	<b>\$ 13,967,708</b>

## FORKIDS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 173,239	\$ 1,541,092
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	759,478	328,682
Realized and unrealized (gain) loss on marketable securities	342,832	(166,997)
Loss (gain) on sale of assets	(264,964)	29,104
Contributed marketable securities	(530,316)	(450,599)
Contributions for long-term purposes	(377,045)	(808,804)
Provision for discount on pledges receivable	47,721	31,435
Bad debt (recoveries)	(20,761)	41,108
Inventory write off	60,003	-
Change in operating assets and liabilities:		
Grants receivable	713,433	(393,568)
Accounts receivable	226,144	(471,268)
Pledges receivable	259,920	162,809
Prepaid expenses	18,103	13,297
Deposits	4,383	-
Accounts payable	(172,816)	(454,525)
Escrow liability	5,740	1,886
Sales tax payable	-	(5)
Accrued expenses	(1,053,121)	781,022
Refundable advances	-	(855,700)
<b>Net cash provided by (used in) operating activities</b>	<b>191,973</b>	<b>(671,031)</b>
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	630,846	-
Proceeds from sale of marketable securities	2,600	2,016,272
Purchases of marketable securities	(2,205,474)	-
Purchases of property and equipment	(65,808)	(9,065,542)
<b>Net cash used in investing activities</b>	<b>(1,637,836)</b>	<b>(7,049,270)</b>
Cash Flows from Financing Activities		
Collections on contributions restricted for long-term purposes	1,446,868	1,183,052
<b>Net cash provided by financing activities</b>	<b>1,446,868</b>	<b>1,183,052</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,005</b>	<b>(6,537,249)</b>
Cash and Cash Equivalents, beginning	4,989,788	11,527,037
Cash and Cash Equivalents, ending	\$ 4,990,793	\$ 4,989,788
Supplemental Non-Cash Flow Activities:		
Accrued property and equipment	\$ -	\$ 882,991
Contributed goods and services	291,455	182,010

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of operations:** With a mission to break the cycle of homelessness and poverty for families and children, ForKids, Inc. is more than a safety net. Our holistic service model advances the health, education, employment, and personal growth of the adults and children we serve. Our objective is to foster self-reliant, healthy families and successful kids. On any given day, ForKids' in-depth programs assist over 250 families including 500 children from Norfolk, Portsmouth, Chesapeake, Suffolk, Western Tidewater, and Virginia Beach; our extended services now touch the lives of over 75,000 individuals each year in fourteen cities and counties in Southeastern Virginia.

Programs include emergency shelter, rapid re-housing, supportive housing, prevention, tenant based rental assistance, out-of-school time education programs, economic mobility, and targeted services for veteran families. In addition, ForKids operates the Regional Housing Crisis Hotline and Resources757 connecting families across greater Hampton Roads to vital local resources. Programs are delivered out of the newly completed Landmark Center in Chesapeake and Birdsong Center in Suffolk. You can learn more at [www.ForKids.org](http://www.ForKids.org).

ForKids Suffolk, L.L.C. (the "Company") was established in 2008 as a wholly-owned subsidiary for the purpose of holding real property located in Suffolk, Virginia.

ForKids Thrift, L.L.C. d/b/a Good Mojo (the "Thrift Store") was established in 2010 as a wholly-owned subsidiary for the purpose of dealing with donations received and the sale of thrift items for the benefit of the Organization and the community.

ForKids Foundation, L.L.C. was established in 2006 as a wholly-owned subsidiary for the purpose of dealing with the proceeds from contributions and grants received for the benefit of the Organization.

ForKids Properties, L.L.C. was established in 2010 as a wholly-owned subsidiary for the purpose of holding real property.

ForKids Investments, L.L.C. was established in 2014 as a wholly-owned subsidiary for the purpose of holding investments.

Housing Crisis Hotline, L.L.C. was established in 2016 as a wholly-owned subsidiary for the purpose of acquiring a multi-line telephone system and the furniture, fixtures, and equipment required to operate a telephone hotline.

**Principles of consolidation:** The consolidated financial statements include the accounts of ForKids, Inc. and its wholly-owned subsidiaries:

ForKids Suffolk, L.L.C.	ForKids Investments, L.L.C.
ForKids Foundation, L.L.C.	ForKids Thrift, L.L.C.
ForKids Properties, L.L.C.	Housing Crisis Hotline, L.L.C.

All inter-company accounts and transactions have been eliminated during consolidation.

**Cash equivalents:** For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less.

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Method of accounting:** The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, as such, recognize income when earned and expenses when incurred.

**Accounts receivable:** Accounts receivable consist of trade accounts receivable and are stated at amounts billed less an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the receivable portfolios. An allowance was not deemed necessary at June 30, 2022 and 2021.

**Grants receivable:** Grants receivable consist of federal, state, and private grants. The Organization determines the need for an allowance for doubtful accounts based on historical data and management's opinion of the collectability of receivables. An allowance was not deemed necessary at June 30, 2022 and 2021.

**Pledges receivable:** Pledges are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional pledges to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional pledges receivable that are expected to be collected in more than one year are reported at fair value initially and at net realizable value thereafter. Pledges receivable are stated at amounts pledged less a discount and an allowance for uncollectible accounts. A discount of \$3,248 and \$50,969 was recorded for the years ended June 30, 2022 and 2021, respectively. The discount rate was 1.92% for June 30, 2022 and 2021. Management's determination of the allowance for doubtful accounts is based on an evaluation of the receivable, past collection experience, current economic conditions, and other risks inherent in the receivables portfolio. An allowance for doubtful accounts was not deemed necessary for the years ended June 30, 2022 and June 30, 2021.

**Marketable securities:** The Organization reports marketable securities at their fair value in the consolidated statements of financial position and are classified as trading securities. Unrealized gains and losses, less investment expenses, are included in the unrestricted change in net assets in the accompanying consolidated statements of activities.

**Property and equipment:** Property and equipment are recorded at cost, or if contributed, at the estimated fair value at the date of contribution. Contributions are reported as unrestricted support unless the donor restricted the donated asset to a specific purpose. Long-lived assets held and used by the Organization are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable. Depreciation is calculated using straight-line and accelerated methods based on the following useful lives:

Building and improvements	15 – 40 years
Furniture and equipment	5 – 7 years
Transportation equipment	5 years

**Use of estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Income taxes:** The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2022. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined the Organization had no uncertain income tax positions at June 30, 2022 and 2021. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date they were filed. The Organization's policy is to classify income tax related to interest and penalties, if any, in other interest expense.

ForKids Suffolk, L.L.C., ForKids Foundation, L.L.C, ForKids Investments, L.L.C., ForKids Properties, L.L.C., ForKids Thrift, L.L.C., and Housing Crisis Hotline, L.L.C. are Virginia limited liability companies. The members' share of income or loss is reported directly on the members' income tax return. Therefore, no provision for income taxes has been reflected in these consolidated financial statements.

**Financial statement presentation:** The Organization presents its consolidated financial statements in accordance with U.S. GAAP for financial statements of nonprofit organizations. Under these accounting standards, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. In addition, the Organization is required to present statements of functional expenses and cash flows.

**Classification of net assets:** Net assets, revenues, expense, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets of the Organization and changes therein are classified and reported as follows:

**Net assets without donor restrictions:** Net assets that are free of donor-imposed stipulations and are fully available to utilize for any program or supporting services. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions in accordance with donors' stipulations results in the release of such restrictions. The Board of Directors (the "Board") may designate certain amounts to be utilized or invested to meet specific objectives of the Organization.

**Net assets with donor restrictions:** Net assets subject to donor-imposed stipulations that may expire with the passage of time or that may be satisfied by actions of the Organization. When donor stipulations expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from donor restrictions. The Organization held net assets with donor restrictions to be held in perpetuity of \$152,500 and \$72,943 at June 30, 2022 and 2021, respectively. See further discussion at Note 14.

**Advertising costs:** The Organization expenses advertising costs as incurred. During the years ended June 30, 2022 and 2021, the Organization expensed advertising costs of \$14,187 and \$4,325, respectively.

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Functional allocation of expenses:** Program expenses include those costs that can be specifically identified with programs, as well as portions of certain indirect costs that, in management's estimation, are attributable to programs. Management and general expenses include those expenses that are not directly identifiable with any other specific program but provide for the overall support and direction of the Organization. Accordingly, certain costs have been allocated among the programs, management and general, and fundraising expenses. Operating expenses and self-supporting activities are allocated based on time and effort. The consolidated financial statements report expenses by function in the consolidated statement of functional expenses.

**Federal agencies and government grants:** Grant income is recognized in the year the grant is awarded. Cost reimbursement type grants are conditional contributions and recognized as revenue when conditions have been met. Many grants require the Organization to provide matching funds and are recorded as unrestricted revenue as the match requirements are met.

**Prior year summarized information:** The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's audited consolidated financial statements for the year ended June 30, 2021, from which the summarized information was derived.

**Adoption of accounting standards:** During the year ended June 30, 2022, the Organization adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The adoption of this guidance did not have a significant impact on Organization's consolidated financial statements. The Organization's contributed nonfinancial assets are donated goods and services that are described in Note 5.

**Significant new accounting standards not yet adopted:** In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization expects that the adoption of this standard will increase assets and liabilities.

## FORKIDS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 2. Restricted Cash

Restricted cash at June 30 consists of the following:

Restriction	2022	2021
Escrow account	\$ 267	\$ 367
Security deposit	15,544	9,704
Capital campaign and endowment	1,787,567	2,792,580
<b>Total</b>	<b>\$ 1,803,378</b>	<b>\$ 2,802,651</b>

#### Note 3. Marketable Securities

Marketable securities consist of mutual and exchange funds and are presented on the consolidated statements of financial position at June 30 as follows:

	2022		2021	
	Cost	Value	Cost	Value
Current Assets:				
Marketable securities	\$ 3,140,162	\$ 3,104,377	\$ 613,457	\$ 714,019
<b>Total</b>	<b>\$ 3,140,162</b>	<b>\$ 3,104,377</b>	<b>\$ 613,457</b>	<b>\$ 714,019</b>

#### Note 4. Liquidity and Availability of Funds

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

	2022	2021
Cash and Cash Equivalents	\$ 3,187,415	\$ 2,187,137
Grants Receivable	1,012,709	1,289,064
Accounts Receivable	58,115	439,823
<b>Total financial assets available to meet general expenditures within one year</b>	<b>\$ 4,258,239</b>	<b>\$ 3,916,024</b>

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 considers general expenditures to be all program services, management and general, and fundraising costs presented in the Statement of Functional Expenses incurred in the ordinary course of the advancement of the Organization's mission. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$500,138 and \$210,058 as of June 30, 2022 and 2021, respectively. This fund established by the Board of Directors may be drawn upon, if necessary, to meet unexpected liquidity needs. Additionally, the Organization maintains a line of credit, as discussed in more detail in Note 12. As of June 30, 2022 and 2021, \$500,000 remained available on the Organization's line of credit.



## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 5. Donated Goods and Services**

Community volunteers donate a significant amount of non-professional time to program services which cannot be objectively valued and are not reflected.

The consolidated financial statements also reflect donated goods and services of \$291,455 and \$182,010, which consisted of property and various other goods for the years ended June 30, 2022 and 2021, respectively. In valuing donated goods and services, the Organization estimates the fair value on the basis of values that would be received for selling similar products in the United States. The Organization received donated stock with a fair value of \$530,316 and \$450,599 during the years ended June 30, 2022 and 2021, respectively. It is the Organization's policy to immediately sell all stock donations upon receipt.

#### **Note 6. Pledges Receivable**

Pledges receivable consist of the following:

	<b>2022</b>	<b>2021</b>
Receivable in less than one year	\$ 491,087	\$ 1,730,464
Receivable in one to five years	94,751	280,559
<b>Total pledges receivable</b>	<b>585,838</b>	<b>2,011,023</b>
Less unamortized discount	(3,248)	(50,969)
<b>Net pledges receivable</b>	<b>\$ 582,590</b>	<b>\$ 1,960,054</b>

As shown on the consolidated statements of financial position:

Current portion of pledges receivable	\$ 491,087	\$ 1,730,464
Long-term portion of pledges receivable, net	91,503	229,590
	<b>\$ 582,590</b>	<b>\$ 1,960,054</b>

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 7. Property and Equipment**

Property and equipment consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 773,668	\$ 848,668
Buildings and Improvements	18,638,825	19,059,044
Furniture and Equipment	2,452,155	2,482,494
Transportation Equipment	331,221	311,222
Construction in Progress	20,000	73,979
	<u>22,215,869</u>	<u>22,775,407</u>
Less Accumulated Depreciation	<u>(2,690,574)</u>	<u>(2,190,560)</u>
	<u>\$ 19,525,295</u>	<u>\$ 20,584,847</u>

Depreciation expense was \$759,478 and \$328,682 for the years ended June 30, 2022 and 2021, respectively.

#### **Note 8. Lease Commitments**

The Organization leased office space with lease payments of an escalating base rent (plus certain allocable direct costs) required under present commitment agreements. The lease expired March 1, 2021. Rental expense for the building was \$0 and \$128,233 for the years ended June 30, 2022 and 2021, respectively.

In July 2021, the Organization leased storage space for the Thrift Store inventory. The lease required monthly payments of \$1,000 and expired in July 2022.

During 2012, the Organization began a new program leasing multiple premises for use in program services. Payments are reimbursed by the U.S. Department of Housing and Urban Development (“HUD”) under the Supportive Housing Program. Lease terms are one year or month-to-month thereafter.

Due to the program mentioned in the preceding paragraph, a portion of the rental expense is classified as housing assistance on the consolidated statement of functional expense. Rental expense under the various leases for the years ended June 30, 2022 and 2021 was \$312,867 and \$199,076, respectively.

The Organization leases office equipment under various lease agreements that expire in July 2025. Rental expense was \$15,249 for the year ended June 30, 2022.

Future minimum lease payments under these lease agreements are:

<u>Year(s) Ending June 30,</u>	<u>Amount</u>
2023	\$ 142,019
2024	25,656
2025	<u>25,656</u>
Total	<u>\$ 193,331</u>

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 9. Lessor Arrangements**

The Organization has leasing operations that consist principally of leasing buildings. The Organization's leases are classified as operating leases. Total rental income from unrelated parties for the years ended June 30, 2022 and 2021 was \$158,320 and \$115,066, respectively.

The Organization's investment in property held for lease as of June 30, 2022 consists of the following:

Building	\$ 1,651,657
Less Accumulated Depreciation	<u>(741,703)</u>
	<u>\$ 909,954</u>

Minimum future rentals are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	<u>\$ 56,463</u>

#### **Note 10. Retirement Plan**

The Organization maintains a Simple IRA retirement plan that allows employees making more than \$5,000 to participate. The Organization will provide a dollar-for-dollar match up to 3% of each participant's annual salary. In January 2022, the Organization transitioned to a 401k retirement plan that allows employees that have 250 hours work and 90 days of employment to participate. The Organization will match 100% of the first 3% of an employee's contribution, plus 50% of the next 2%. During the years ended June 30, 2022 and 2021, the Organization incurred retirement plan expenses of \$105,514 and \$111,013, respectively, which is included in employee benefits in the consolidated statement of functional expenses.

#### **Note 11. United Way**

The amount shown on the accompanying consolidated statements of activities as being received from the United Way of South Hampton Roads is net of the Organization's proportionate share of federal fundraising costs of \$25,922 and \$23,412 for the years ended June 30, 2022 and 2021, respectively.

#### **Note 12. Line of Credit**

The Organization has a line of credit with a limit of \$500,000, which is due on demand. The amount available is secured by a deed of trust and accounts receivable. Interest is payable on the line at an annual rate equal to the *Wall Street Journal* prime rate with a floor of 4.0%. In September 2022, the line of credit limit was increased to \$750,000. At June 30, 2022 and 2021, there was no outstanding balance.

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 13. Risk and Uncertainties**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law to provide emergency assistance and health care response for individuals, families and businesses affected by the 2020 coronavirus pandemic. Under the CARES Act, the Organization applied for a Payroll Protection Program (PPP) loan that is administered by the Small Business Administration, and received \$855,700 during the year ended June 30, 2020. Under the provision of the PPP, the loan or portions thereof may be forgiven if certain conditions are met by the Organization. In May 2021, the Organization was notified that the entire balance of the loan proceeds had been forgiven and this amount is included on the statement of activities in federal agencies support for the year ended June 30, 2021.

#### **Note 14. Endowment**

The Organization's endowment includes both donor-restricted endowment and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law* – The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Organization's Board of Directors has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

## **FORKIDS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 14. Endowment (Continued)**

*Funds with Deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable state law requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021. The Organization has interpreted the UPMIFA and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

*Return Objectives and Risk Parameters* – The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that it will earn annualized nominal net return goal (net of fees) of 6.0%. Asset allocations should be targeted to produce expected returns consistent with this target using long-term historical returns of assets classes as a guide. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives* – To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy* – The annual spending rate shall be 4% of an eight quarter (two year) moving average of the market value of the endowment as determined each September 20th. The spending rate will be reviewed annually with respect to investment performance, and will be changed only by the majority vote of the Board Managers of the ForKids Foundation. Funds that have donor restrictions are to be disbursed only in accordance with documentation received at the time of the gift to the Organization. In the absence of donor restrictions, income earned on donor restricted endowments are classified as endowments without donor restrictions and expensed according to the mission of the Organization. The Organization's spending policy is consistent with its objective of maintaining the original principal balance of donor restricted endowment funds.

## FORKIDS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 14. Endowment (Continued)

For the years ended June 30, 2022 and 2021, the Organization had the following endowment-related activities:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 2,500,000	\$ 2,500,000
Board-Designated Endowment Funds	977,869	-	977,869
<b>Total funds as of June 30, 2022</b>	<b>\$ 977,869</b>	<b>\$ 2,500,000</b>	<b>\$ 3,477,869</b>
Balance as of June 30, 2021	\$ 850,931	\$ 72,943	\$ 923,874
Net Decrease in Market Value	(80,106)	-	(80,106)
Contributions	207,044	2,427,057	2,634,101
<b>Balance as of June 30, 2022</b>	<b>\$ 977,869</b>	<b>\$ 2,500,000</b>	<b>\$ 3,477,869</b>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 72,943	\$ 72,943
Board-Designated Endowment Funds	850,931	-	850,931
<b>Total funds as of June 30, 2021</b>	<b>\$ 850,931</b>	<b>\$ 72,943</b>	<b>\$ 923,874</b>
Balance as of June 30, 2020	\$ 653,279	\$ 58,959	\$ 712,238
Net Increase in Market Value	197,652	-	197,652
Contributions	-	13,984	13,984
<b>Balance as of June 30, 2021</b>	<b>\$ 850,931</b>	<b>\$ 72,943</b>	<b>\$ 923,874</b>

#### Note 15. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Children Services	\$ 5,000	\$ 75,000
Capital Campaign	1,758,502	4,790,241
Endowment	2,500,000	72,943
Fixed Assets	315,000	397,166
Programs/Services	504,680	251,528
	<b>\$ 5,083,182</b>	<b>\$ 5,586,878</b>