Community Enrichment Center

Independent Auditor’s Report and Financial Statements

December 31, 2018

Community Enrichment Center
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Contents

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INDEPENDENT AUDITOR'S REPORT

The Finance Committee
Community Enrichment Center
North Richland Hills, Texas

We have audited the accompanying financial statements of Community Enrichment Center (the "Center"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 of 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 auditor's 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 Center'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 Center'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 Community Enrichment Center as of December 31, 2018, 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.

Emphasis of Matter

As described in *Note 2* to the financial statements, in 2018, the Center adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Worth, Texas
December 16, 2019

Community Enrichment Center

Statement of Financial Position

December 31, 2018

ASSETS	
Cash and cash equivalents	$ 1,120,362
Tenant accounts receivable, net of allowance	47,723
Accounts receivable - federal grants	217,952
Certificates of deposit	201,782
Prepaid expenses	51,822
Property and equipment, net	6,956,810
Total assets	$ 8,596,451
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	$ 55,263
Accrued expenses	39,599
Tenant security deposits	51,381
Total liabilities	146,243
Net Assets	
Without donor restrictions	8,413,268
With donor restrictions	36,940
Total net assets	8,450,208
Total liabilities and net assets	$ 8,596,451

Community Enrichment Center
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Public support	$ 1,028,977	$ 10,317	$ 1,039,294
Governmental financial assistance	794,835	-	794,835
Public support from special events	429,028	-	429,028
Rents	1,439,051	-	1,439,051
In-kind contributions	2,993,061	-	2,993,061
Interest income	4,791	-	4,791
Gain on sale of property	1,580,677	-	1,580,677
Other income	2,238	-	2,238
Sales - Second Glance Store	380,822	-	380,822
Royalty income	5,268	-	5,268
Total revenue and other support	8,658,748	10,317	8,669,065
Expenses:			
Program services:			
Homeless and family violence	963,147	-	963,147
Affordable housing	1,578,147	-	1,578,147
Community outreach	3,566,638	-	3,566,638
Employment education	189,503	-	189,503
Total program services	6,297,435	-	6,297,435
Supporting services:			
Management and general	658,523	-	658,523
Second Glance Store	327,668	-	327,668
Fundraising	379,812	-	379,812
Total supporting services	1,366,003	-	1,366,003
Total expenses	7,663,438	-	7,663,438
Change in net assets	995,310	10,317	1,005,627
Net Assets, Beginning of Year	7,417,958	26,623	7,444,581
Net Assets, End of Year	$ 8,413,268	$ 36,940	$ 8,450,208

Community Enrichment Center

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services					Supporting Services				
	Homeless and Family Violence	Affordable Housing	Community Outreach	Employment Education	Total Program Services	Management and General	Second Glance Store	Fund-Raising	Total Supporting Services	Total
Direct assistance to participants - household expenses	$ 317,353	$ 1,186	$ 128,611	$ 13,285	$ 460,435	$ 839	$ -	$ -	$ 839	$ 461,274
Direct assistance to participants - food	-	-	2,958,393	-	2,958,393	-	-	-	-	2,958,393
Property operating expenses	101,150	881,931	91,229	3,951	1,078,261	28,015	45,345	-	73,360	1,151,621
Salaries and benefits	418,547	292,931	309,073	170,486	1,191,037	366,748	178,946	190,341	736,035	1,927,072
Auction expense	-	-	-	-	-	-	-	57,116	57,116	57,116
Professional fees	-	-	-	-	-	166,942	-	8,195	175,137	175,137
Advertising and branding	25	69	-	-	94	232	3,550	29,501	33,283	33,377
Bank charges	-	275	-	-	275	4,526	10,733	994	16,253	16,528
Continuing education	1,925	49	312	705	2,991	379	-	130	509	3,500
Computer/network expense	3,249	4,022	1,750	-	9,021	52,036	-	-	52,036	61,057
Dues and subscriptions	4,514	3,553	770	-	8,837	2,820	25	3,527	6,372	15,209
Postage	2,760	277	1,624	383	5,044	809	-	2,996	3,805	8,849
Supplies	2,224	1,015	9,290	43	12,572	8,025	1,810	7,285	17,120	29,692
Telephone	366	7,804	-	-	8,170	4,395	3,781	17,578	25,754	33,924
Volunteer expense	-	-	79	-	79	-	-	3,608	3,608	3,687
Facilities and office machine rents	36,461	630	3,796	546	41,433	13,105	83,102	9,175	105,382	146,815
Meals and entertainment	432	49	269	-	750	4,992	233	49,366	54,591	55,341
Miscellaneous expense	179	-	-	104	283	122	143	-	265	548
Depreciation	73,962	384,356	61,442	-	519,760	4,538	-	-	4,538	524,298
	$ 963,147	$ 1,578,147	$ 3,566,638	$ 189,503	$ 6,297,435	$ 658,523	$327,668	$ 379,812	$1,366,003	7,663,438

Community Enrichment Center

Statement of Cash Flows

Year Ended December 31, 2018

Operating Activities	
Change in net assets	$ 1,005,627
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	524,298
Gain on sale of property	(1,580,677)
(Increase) decrease in operating assets	
Accounts receivable	8,676
Accounts receivable - federal grants	51,092
Prepaid expenses	15,944
Increase (decrease) in operating liabilities	
Accounts payable	(19,961)
Accrued expenses	(100,709)
Tenant security deposits	12,306
Net cash used by operating activities	(83,404)
Investing Activities	
Purchase of property and equipment	(1,588)
Proceeds from sale of property	1,729,455
Purchase of investments	(201,782)
Proceeds from sale of investments	205,083
Net cash provided by investing activities	1,731,168
Financing Activities	
Payments on loan	(956,182)
Net cash used by financing activities	(956,182)
Net increase in cash and cash equivalents	691,582
Cash and Cash Equivalents, Beginning of Year	428,780
Cash and Cash Equivalents, End of Year	$ 1,120,362
Supplemental information:	
Interest paid	$ 18,804

Community Enrichment Center

Notes to Financial Statements

December 31, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Activities

Community Enrichment Center (the "Center") was incorporated as a nonprofit corporation in the State of Texas in March 1988, for the two-fold purpose of empowering individuals to become productive, self-sufficient citizens, and to restore family and community support systems through a holistic approach which links available private, public, and financial community resources. The major programs of the Center include: a subsidized housing program for low income families, homeless families and victims of family violence in Tarrant County; community outreach, including a food pantry, employment coaching and high school equivalency classes. Using the Working Family Success model, an integrated service delivery method, the focus is on stabilizing families in crisis by providing basic necessities such as housing and food, allowing time to identify barriers to success and develop and implement a coaching strategy to overcome those barriers and help ensure participants can maintain stability and not return to a point of crisis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted primarily of money market accounts held at financial institutions.

At December 31, 2018, the Center's cash accounts exceeded federally insured limits by approximately $417,400.

Certificates of Deposit

Certificates of deposit held at year-end are considered investments for reporting purposes with original maturity dates in excess of three months.

Accounts Receivable

Accounts receivable consist of contract and grant receivables due and uncollected at the end of the year. Management evaluates the allowance for uncollectible receivables based upon past experience and analysis of collectability. Amounts are considered past due when not paid by the end of the following month, and are written off when deemed uncollectible by management. Management has determined that an allowance is not considered necessary at December 31, 2018.

Tenant Accounts Receivable

Tenant accounts receivable are stated at the amount billed to tenants. The Center provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Rent charges are ordinarily due on the first day of the month. Amounts are considered past due when not paid by the end of the following month and are written off when deemed uncollectible by management. Management has established an allowance of $600 for 2018.

Property and Equipment

Property and equipment acquisitions exceeding $5,000 are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	40 years
Rental properties	15 years
Improvements	10-20 years
Machinery and equipment	3-10 years
Furniture and fixtures	5-10 years

Long-Lived Asset Impairment

The Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Management has determined that no assets were impaired during 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as net assets without donor restrictions.

In-kind Contributions

The Center records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteers provide valuable services throughout the year that are not recognized as contributions in the financial statements because the criteria for recognition under GAAP has not been satisfied.

Contributions of materials are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment (see *Note 5*).

Government Grants

Support funded by grants is recognized as the Center meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Center is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

The Center files tax returns in the U.S. Federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, Second Glance Store, and fundraising categories based on the specific identification and approximate percentage of time expended.

Note 2: Change in Accounting Principle

In 2018, the Center adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted, and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

This change has no impact on previously reported total change in net assets.

Note 3: Property and Equipment

Property and equipment consists of the following:

Land	$ 1,873,682
Buildings and improvements	1,736,984
Furnishings and equipment	478,445
Houses, townhomes, and apartment complex	8,055,288
	12,144,399
Less accumulated depreciation	(5,187,589)
	$ 6,956,810

Note 4: Gain on Sale of Property

During 2018, the Center sold 10 rental properties and recorded a gain on sale of assets as follows:

Total proceeds	$ 1,729,455
Less: net book value	148,778
Gain on sale of assets	$ 1,580,677

Proceeds from these sales were used to repay a note payable on townhomes purchased in 2017 (see *Note 9)* and to further the mission of the Center.

Note 5: Donated Goods and Facilities

The Center receives the use of certain land and buildings owned by The Hills Church of Christ, and other goods and services from various local businesses. The Center also receives food donations from Tarrant Area Food Bank, local grocery stores, and other agencies and individuals throughout the year. A summary of the in-kind contributions, which have been recorded at the estimated fair-value and reflected in the accompanying statements of activities, at December 31, 2018 follows:

Food	$ 2,934,561
Facilities	42,000
Utilities	15,000
Other	1,500
	$ 2,993,061

Note 6: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 are restricted for the Refresh Event in the amount of $36,940.

Net Assets Released from Restrictions

There were no net assets released from restriction during 2018.

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Cash	$ 1,120,362
Certificates of deposit	201,782
Accounts Receivable, net of allowance	47,723
Accounts Receivable - federal grants	217,952
Financial assets available to meet general expenditures within one year	$ 1,587,819

The Center receives contributions 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. For the year ended December 31, 2018, restricted contributions of $36,940 were included in financial assets available to meet cash needs for general expenditures within one year.

The Center 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. The Center has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. The Center has a policy to target a year-end balance of reserves without donor restriction and which are undesignated by the board to meet 90 to 180 days of expected expenditures. To achieve these targets, the Center forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves annually. During the year ended December 31, 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 8: Leasing Activities

Rental income earned from the transitional housing program included in the statement of activities is $1,439,051 in 2018. Due to the nature of the rental income, future minimum payments to be received cannot be determined.

The properties are comprised of the following and are recorded at cost:

Apartment complex	$ 3,744,663
Townhomes	2,918,839
Houses	1,391,786
	8,055,288
Less: Accumulated depreciation	(3,934,258)
	$ 4,121,030

Note 9: Long-term Debt

In 2017, the Center obtained a loan in the amount of $2,850,000 with an interest rate of 5% to purchase Cedar Ridge Townhomes. The note was paid in full during 2018. The interest incurred during 2018 was $18,804.

Note 10: Commitments

The Center leases certain facilities, and office equipment under non-cancelable operating leases having remaining terms in excess of one year. The minimum lease commitments at December 31, 2018, are as follows:

2019	$ 62,000
2020	13,000
2021	5,000
2022	1,000
	$ 81,000

Rental expense was approximately $160,000 for 2018, which includes $42,000 of donated rent.

In addition, the Center paid approximately $24,000 in rent expense relating to the Common Area Maintenance (CAM), taxes, and insurance for one of its leases in 2018.

Note 11: Subsequent Events

Subsequent events have been evaluated through December 16, 2019, which is the date the financial statements were available to be issued.

Note 12: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Center is in the process of evaluating the impact the amendment will have on the financial statements.

On June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. For nonpublic entities, the standard will be effective for reporting periods beginning on or after December 15, 2018. The Center has not evaluated the effect the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Center is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.