

**LOWER CAPE OUTREACH , INC.**

Financial Statements

December 31, 2018

**LOWER CAPE OUTREACH COUNCIL, INC.**

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December 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

September 20, 2019

To the Board of Directors  
Lower Cape Outreach Council, Inc.  
Orleans, Massachusetts

We have audited the accompanying financial statements of Lower Cape Outreach Council, Inc. (a non profit organization), which comprise the statements 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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lower Cape Outreach Council, Inc. as of December 31, 2018, and the change in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Lamb, Mason, Bulger & Co. P.C.*  
Lamb, Mason, Bulger & Co., P.C.

**LOWER CAPE OUTREACH COUNCIL, INC.**

Statement of Financial Position

December 31, 2018

(See Independent Auditor's Report)

ASSETS

Assets:		
Cash and cash equivalents		\$ 417,120
Cash certificates of deposit		25,456
Prepaid expenses		11,499
Investments		584,627
Investments – Endowment		164,487
Furniture and equipment net of accumulated depreciation		<u>28,304</u>
Total Assets		<u>\$ 1,231,493</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable		\$ 6,941
Sales tax payable		<u>458</u>
Total liabilities		<u>7,399</u>
Net Assets:		
Net assets without restriction		1,059,607
Board designated endowment		<u>164,487</u>
Total net assets without restriction		<u>1,224,094</u>
Total Liabilities and Net Assets		<u>\$ 1,231,493</u>

See Accompanying Notes to Financial Statements

**LOWER CAPE OUTREACH COUNCIL, INC.**

Statement of Activity

For the Year Ended December 31, 2018

(See Independent Auditor's Report)

Support and Revenue	
Contributions	\$ 727,857
Grants	343,492
Thrift shop     \$ 161,144	47,052
Cost of sales   (\$114,092)	147,308
Special events (net of direct costs of \$22,269)	( 1,977)
Investment income	<u>1,263,732</u>
Total Support and Revenue	
Expenses	1,005,002
Program Services	120,064
Thrift Shop	
Supporting Services	69,468
General and administrative	<u>160,400</u>
Fund Raising	
Total Expenses	<u>1,354,934</u>
Deficit of Support and Revenue over Expenses	( 91,202)
Net Assets Without Restriction Beginning of Year	<u>1,315,296</u>
Net Assets Without Restriction, End of Year	<u>\$ 1,224,094</u>

See Accompanying Notes to Financial Statements

**LOWER CAPE OUTREACH COUNCIL, INC.**

Statement of Functional Expenses

For the Year Ended December 31, 2018

(See Independent Auditor's Report)

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Thrift Shop</u>	<u>Fund Raising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 3,015	\$ 7,764	\$ 10,779
Delivery	-	-	5,440	-	5,440
Information technology	26,902	9,503	926	-	37,331
Insurance	5,721	318	-	940	6,979
Office equipment	2,720	1,166	-	-	3,886
Office supplies	3,122	3,122	3,285	228	9,757
Personnel	158,389	41,620	52,249	87,853	340,111
Postage & printing	947	1,860	-	53,249	56,056
Professional development	339	-	-	-	339
Professional fees	918	6,423	-	2,901	10,242
Property management	24,657	1,370	4,900	1,370	32,297
Rent	54,022	3,001	48,000	3,001	108,024
Telephone	3,410	189	556	189	4,345
Volunteer appreciation	3,286	183	-	183	3,651
Miscellaneous	-	-	249	2,722	2,971
Depreciation	2,850	713	1,444	-	5,007
Payments for clients	<u>717,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>717,719</u>
Totals	<u>\$ 1,005,002</u>	<u>\$ 69,468</u>	<u>\$ 120,064</u>	<u>\$ 160,400</u>	<u>\$ 1,354,934</u>

See Accompanying Notes to Financial Statements

**LOWER CAPE OUTREACH COUNCIL, INC.**

Statement of Cash Flows

For the Year Ended December 31, 2018

(See Independent Auditor's Report)

Cash Flow from Operating Activities:	
Change in net assets	\$( 91,202)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Donated stock	( 18,691)
Depreciation and amortization	5,007
Realized and unrealized loss on stock	22,229
Decrease in prepaid expenses	879
Increase in accounts payable	<u>285</u>
Net Cash Used by Operating Activities	( 81,493)
Cash Flows from Investing Activities:	
Transfer from investments	48,771
Purchase of investments	( 19,221)
Net Cash Provided by Investing Activities	29,550
Net Decrease in Cash	( 51,943)
Cash and cash equivalents at Beginning of Year	<u>494,519</u>
Cash and cash equivalents at End of Year	<u>\$ 442,576</u>

See Accompanying Notes to Financial Statements

**LOWER CAPE OUTREACH COUNCIL, INC.**

Notes to Financial Statements

December 31, 2018

(See Independent Auditor's Report)

Note 1 - Nature of Organization:

Lower Cape Outreach Council Inc., (the "Organization") was formed in 1980 to provide emergency assistance of food, clothing and financial support to individuals and families in Brewster, Chatham, Eastham, Harwich, Orleans, Provincetown, Truro and Wellfleet which will lead to healthy, productive and self-sustaining lives as part of the Cape Cod community.

Note 2 – Summary of Significant Accounting Policies:

Financial Statement Presentation - The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Presentation of Financial Statements of Not-For-Profit-Organizations. Under FASB ASC 958-205 the Organization is required to classify its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's Board of Directors (the "Board") may designate assets without restrictions for specific operational purposes from time to time.

Net assets with restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

As of December 31, 2018, the Organization had no net assets with restrictions.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Contributions - Contributions received are recorded as net assets without restrictions or net assets with restrictions, depending on the existence and/or nature of any donor-imposed restrictions. As permitted, the Organization reports contributions with donor-imposed restrictions as without restriction when the restrictions are met in the same reporting period as received.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising – The Organization follows the policy of charging the costs of advertising and publicity to expense as incurred.

**LOWER CAPE OUTREACH COUNCIL, INC.**

## Notes to Financial Statements

December 31, 2018

(See Independent Auditor's Report)

Cash and Cash Equivalents - For the purpose of the statement of cash flows, the Organization considers all unrestricted highly liquid investments, including certificates of deposits be cash equivalents.

Contributed Services - The Organization received services from volunteers and donated materials used in rendering services to its clients. The estimated fair value of contributed services and materials is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Functional Allocation of Expenses - Expenses benefiting more than one functional area are allocated based on estimated usage for each area. Expenses allocated are shown at Statement of Functional Expenses.

Subsequent Events - The Organization evaluated subsequent events for potential required disclosures through September 20, 2019, which is the day the financial statements were available to be issued.

Investments - The Organization's investments in equity securities with readily determinable fair market values and all investments in debt securities are valued at fair market value in the statement of financial position. Unrealized gains and losses are included in the statement of net assets and the statement of activities. Investment income earned in the endowment fund is classified as with restriction in the statement of activities. Investments are stated at market, valuation being determined by national stock exchanges.

Fair Value Measurement - The Organization values its investments in accordance with the FASB ASC 820, Fair Value Measurement and Disclosure, which defines fair value as the price that the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on marker data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1 - quoted prices in active markets for identical investments

Level 2 - other significant observable inputs (including quoted prices for similar investments in active markets, interest rates, prepayment speeds, credit risk, etc).

Level 3 - significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments)

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Organization utilizes techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

**LOWER CAPE OUTREACH COUNCIL, INC.**

Notes to Financial Statements

December 31, 2018

(See Independent Auditor's Report)

Note 3 - Investments:

In accordance with ASC 820, the following methods and assumptions were used by the Organization in estimating its fair value disclosure for investments:

Cash and cash equivalents: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments (Level 1).

Investments: The fair value of investments are based on quoted market prices for those or similar investments (Level 1).

Investments are stated at fair market value as follows:

	<u>Basis</u>	<u>Fair Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Equity mutual funds	\$ 392,078	\$ 478,242	\$ 86,164
Bond mutual funds	244,857	235,492	( 9,365)
Money market mutual funds	<u>35,380</u>	<u>35,380</u>	-
	<u>\$ 672,315</u>	<u>\$ 749,114</u>	<u>\$ 76,799</u>

Return on Investments:

Dividends and interest	\$ 19,218
Realized gain on sale of investments	37,248
Unrealized loss on investments	( 59,477)
Total Return on Investments	<u>\$( 3,011)</u>

Note 4 – Cash:

The Organization maintains bank accounts at local banks insured by the Federal Deposit Insurance Corporation (“FDIC”). The standard deposit insurance amount is \$250,000 per depositor, per FDIC-insured bank. At various times during the year the account balances exceeded the FDIC insured limit. At December 31, 2018 the amount in excess of the FDIC insured limit was \$174,774. This excess limit was insured by the Depositors Insurance Fund (“DIF”), a private, industry-sponsored insurance fund.

Note 5 - Income Taxes:

The Organization is a nonprofit corporation under Section 501 (c)(3) of the Internal Revenue Code and Massachusetts law. It is exempt from income tax except that from unrelated sales of goods of which there were none.

**LOWER CAPE OUTREACH COUNCIL, INC.**

## Notes to Financial Statements

December 31, 2018

(See Independent Auditor's Report)

Note 6 - Furniture and Equipment:

Depreciation of furniture and equipment is provided over the estimated useful lives of the respective assets using straight-line methods as follows:

Leasehold improvements-office	20 years	\$ 30,717
Leasehold improvements-thrift shop	20 years	28,881
Equipment-thrift shop	3 years	12,214
Furniture	7 years	4,300
Office equipment	5 to 7 years	<u>23,445</u>
		99,557
Accumulated depreciation		<u>71,253</u>
		<u>\$ 28,304</u>

Furniture and equipment costing \$500 or more is recorded at cost and include expenditures which materially increase values or extend useful lives. Expenditures in the nature of normal and recurring repairs and maintenance are charged to operations as incurred.

Depreciation expense for the year ended December 31, 2018 amounted to \$5,007.

Note 7 - Presentation of Sales Taxes:

The Commonwealth of Massachusetts imposes a sales tax on the Organization's nonexempt sales to nonexempt customers through the thrift shop. The Organization collects the sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenues and the cost of sales.

Note 8 - Simple IRA:

The Organization adopted a Simple IRA plan for employees during the current year. The plan calls for a matching contribution of up to 3% of an employee's salary. The Organization's contribution for 2018 was \$4,832.

**LOWER CAPE OUTREACH COUNCIL, INC.**

## Notes to Financial Statements

December 31, 2018

(See Independent Auditor's Report)

Note 9 - Rent:

The Organization signed a 3 year lease starting in May 2019 for office and program space at a monthly rent of \$5,051 for the first year and a 3% increase for each year of the lease. Office rent for the year was \$60,024.

The office lease requires payments of \$60,416 for 2019.

The Organization signed a one year lease for space to be used as a thrift shop starting January 2019. Monthly rents under the new lease are \$2,500 per month. This lease will not be renewed for 2020.

Thrift shop rent for the year was \$ 48,000.

The thrift shop lease requires payments of \$30,000 for 2019.

Note 10 – Cost of Sales- thrift shop:

Thrift shop inventory consists of items donated for sale in the thrift shop. Donated inventory is recorded at fair market value as a donation and as cost of sales. Donated inventory included in cost of sales for 2018 amounted to \$65,189.

Note 11 – Liquidity and Availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following:

Cash and equivalents	\$ 417,120
Cash certificates of deposit	25,456
Investments	584,627
Endowment spending appropriations	<u>          -</u>
	<u>\$ 1,027,203</u>

The Board has created a board designated endowment by earmarking a portion of its net assets without restriction to be invested for a long but unspecified period of time. The Board does not intend to spend from the board designated endowment, other than amounts appropriated for expenditure. However, these amounts could be made available for general use by Board vote.

**LOWER CAPE OUTREACH COUNCIL, INC.**

Notes to Financial Statements

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(See Independent Auditor's Report)

Note 12 - Investments-Endowment:

The purpose of the Board Designated Endowment is to provide for the long term stability of the Organization. The funds in this account are designated to generate annual income that will supplement the annual budget. Distributions of the funds are restricted to 50% of the annual dividends the fund earns in the calendar year. All future contributions and share value fluctuations as well as 50% of the dividends remain in the fund. Principal distributions occur on an emergency basis and are subject to an affirmative vote of two thirds of both the finance committee and the board. The investment policy is to use mutual funds to provide for the long term well-being of the Organization by diversifying risk while also generating income to provide for near term operational needs.

Board designated endowment net assets, beginning of year	\$ 173,791
Additions to account	-
Withdrawals from account	( 4,450)
Investment income	4,965
Net appreciation	( 19,406)
Gain on sale of investments	<u>9,587</u>
Board designated endowment net assets, end of year	<u>\$ 164,487</u>

As of December 31, 2018, endowment investments consisted of the following:

	<u>Fair Market Value</u>	<u>Cost</u>	<u>Unrealized Gain</u>
Vanguard Wellesley Income Fund	\$ 82,849	\$ 78,477	\$ 4,372
Vanguard Wellington Fund	<u>81,638</u>	<u>73,600</u>	<u>8,038</u>
Total Investments	<u>\$ 164,487</u>	<u>\$ 152,077</u>	<u>\$ 12,410</u>

Note 13 – Prior Period Adjustment:

During the year ended December 31, 2018 the Organization made a correction to remove adjustments from prior years that were outstanding on bank reconciliations. Had these transactions been voided in the year of occurrence, the opening balances of both cash and net assets without restriction would have been \$28,328 higher.