

GRACE KLEIN COMMUNITY, INC.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
AND INDEPENDENT AUDITORS' REPORT

CONTENTS

	PAGE
Independent Auditors' Report	3
Financial Statements	
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets.....	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Grace Klein Community, Inc.
Birmingham, Alabama

Opinion

We have audited the accompanying financial statements of Grace Klein Community, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grace Klein Community, Inc. as of December 31, 2023, 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. 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 Grace Klein Community, Inc. 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 Grace Klein Community, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Members:

- The American Institute of Certified Public Accountants
- The Alabama Society of Certified Public Accountants
- PCPS - The AICPA Alliance for CPA Firms
- National CPA Health Care Advisors Association

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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Grace Klein Community, Inc.'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 Grace Klein Community, Inc.'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.

Pearce, Bevell, Leesburg, Moore, P.C.

Birmingham, AL
January 31, 2025

GRACE KLEIN COMMUNITY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2023

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$ 382,808

TOTAL CURRENT ASSETS 382,808

PROPERTY AND EQUIPMENT

Property and equipment 1,003,089

Less: Accumulated depreciation (217,938)

Property and equipment, net 785,151

OTHER LONG-TERM ASSETS

Operating lease right of use assets 139,575

Total other long-term assets 139,575

TOTAL ASSETS \$ 1,307,534

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable \$ 28,879

Accrued expenses 7,504

Current portion of long-term debt 17,913

Current portion of operating lease liability 32,643

TOTAL CURRENT LIABILITIES 86,939

LONG-TERM LIABILITIES

Long-term debt 190,100

Operating lease liability 106,932

Total long-term liabilities 297,032

TOTAL LIABILITIES \$ 383,971

NET ASSETS

Net assets without donor restrictions 923,563

TOTAL NET ASSETS 923,563

TOTAL LIABILITIES AND NET ASSETS \$ 1,307,534

See auditors' report and notes to the financial statements

GRACE KLEIN COMMUNITY, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Revenues and other support

Donations - food	\$ 7,921,896
Donations - gifts in kind	680,713
Contributions	879,087
Fundraising	6,533
Grant revenue	313,000
Rental income	47,724
Interest income	5,780

Total revenue and other support 9,854,733

Expenses

Program services	9,538,680
Fundraising	43,183
Management & general	68,992

Total expenses 9,650,855

Change in net assets 203,878

Net assets at beginning of year 719,685

Net assets at end of year \$ 923,563

See auditors' report and notes to the financial statements

- 6 -

GRACE KLEIN COMMUNITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Assistance Program	\$ 192,454	\$ -	\$ -	\$ 192,454
Community Events	1,869	-	14,361	16,230
Contract Services	14,730	941	-	15,671
Facilities and Equipment	53,057	3,387	-	56,444
Food for Families - rescued food	7,921,896	-	-	7,921,896
Food for Families - purchased food	61,976	-	-	61,976
In-kind distributions	679,721	-	-	679,721
Insurances	21,296	1,359	-	22,655
Licenses/Taxes	-	3,300	-	3,300
Marketing	-	-	28,822	28,822
Maintenance	9,331	-	-	9,331
Meetings	-	1,124	-	1,124
Mission Trips	17,193	-	-	17,193
Operations:				
Bank & Accounting Fees	-	9,817	-	9,817
Fraud expense	-	568	-	568
Other	5,101	-	-	5,101
Postage	-	4,173	-	4,173
Printing & Copying	5,114	208	-	5,322
Supplies	15,367	-	-	15,367
Technology	7,634	487	-	8,121
Depreciation	31,986	22,923	-	54,909
Interest	-	9,654	-	9,654
Bad debt expense	-	1,050	-	1,050
Miscellaneous	-	10,001	-	10,001
Transportation	72,650	-	-	72,650
Utilities	16,230	-	-	16,230
Payroll Expenses	411,075	-	-	411,075
	<u>\$ 9,538,680</u>	<u>\$ 68,992</u>	<u>\$ 43,183</u>	<u>\$ 9,650,855</u>

See auditors' report and notes to the financial statements

GRACE KLEIN COMMUNITY, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 203,878
Adjustments to reconcile changes in net assets to net cash from operating activities:	
Depreciation expense	54,909
Bad debt expense	1,050
Changes in operating assets and liabilities:	
Accounts payable	25,750
Accrued expenses	1,033
	<hr/>
NET CASH FROM OPERATING ACTIVITIES	286,620
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CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for purchase of property and equipment	(373,064)
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NET CASH FROM INVESTING ACTIVITIES	(373,064)
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CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	(17,275)
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NET CASH FROM FINANCING ACTIVITIES	(17,275)
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NET CHANGE IN CASH	(103,719)
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	486,527
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CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 382,808
	<hr/> <hr/>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW ACTIVITY	
Cash paid during the year for interest	\$ 9,654
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See auditors' report and notes to the financial statements

- 8 -

GRACE KLEIN COMMUNITY, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Grace Klein Community, Inc. (the “Organization”) is a “not-for-profit Corporation” established in 2011 in Birmingham, Alabama, whose primary purpose is to provide relief to poor and disadvantaged members of the community through the collection and donation of food items and various other supplies.

Basis of Financial Statement Presentation

The Organization follows FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, and FASB ASC 958-200, *Not-for-Profit Entities – Presentation of Financial Statements*, which generally defines financial statement presentation using a net asset balance approach segregated by donor-defined restrictions.

The Organization records its revenues and expenses under the accrual basis of accounting. Operating expenses are recognized when cash is disbursed, or a liability is known to exist and are charged to the appropriate functional department. Certain expenses, not directly allocable, are distributed to functional departments using formulas determined by management.

The new reporting format requires resources to be classified for accounting and reporting purposes into two net asset categories according to externally (donor) imposed restrictions. The two classes of net assets are as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Organization. These net assets may be used at the discretion of management and the board of directors.

Net assets with donor 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 the donor has stipulated the funds be maintained in perpetuity.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as an increase in net assets with donor restrictions. However, if a restriction is fulfilled in the same year in which the contribution is received, the Organization reports that support as an increase in net assets without donor restrictions.

Financial Statement 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 expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The Organization has financial instruments, namely cash and cash equivalents, that potentially subject it to concentration of credit risk. The Organization places its cash with high credit quality financial institutions.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be a cash equivalent. The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$28,822 for the year ended December 31, 2023.

Property and Equipment

Property and equipment that have been purchased by the Organization are recorded at cost. Property and equipment that have been donated to the Organization are recorded at their respective fair market values at the time of donation. Expenditures for repairs and maintenance are charged to expense as incurred, and additions or improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement, the cost and accumulated depreciation are removed from the related accounts, and any gain or loss is reflected in operations. Depreciation is calculated using the straight-line depreciation expense method over the estimated useful lives of the assets as follows:

	Years
Buildings and building improvements	15 - 27
Furniture and equipment	5 - 10
Leasehold improvements	5 - 10
Vehicles	5

Leases

Management evaluates contracts at inception to determine if an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the statements of financial position. The operating leases relate primarily to residential and office space rent. The Organization has no finance leases. Short-term leases (i.e., leases with an initial term of twelve months or less that do not contain a purchase option that is likely to be exercised) and variable lease payments are recorded on the statements of activities and changes in net assets in the period in which the obligation for the payments is incurred and are not recorded on the statements of financial position.

Operating lease ROU assets represent our right to use an underlying asset for the lease term, and operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of the future lease payments over the lease term. The Organization's leases do not provide an implicit rate, so they use a risk-free rate at commencement date in determining the present value of lease payments. The risk-free rate is reevaluated upon lease modification. The operating lease ROU asset also includes initial direct costs and prepaid lease payments made, if any, less lease incentives, if any. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Contributed Services

The Organization recognizes revenue, if significant, for certain contributed services at the fair value of those services, which generally are for services that the Organization would otherwise be required to purchase; no such revenues were recognized this year. Hours of service donated by volunteers, for which no value has been assigned, are not treated as revenues.

Income Taxes

The Organization is a non-profit entity exempt from federal and state income taxes under Internal Revenue Code Service Code Section 501(c)(3). Accordingly, no accrual for taxes has been made.

The Organization adopted accounting standards relating to uncertainty of income tax positions. Management assessed whether there were any uncertain tax positions that may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. The Organization files income tax returns in the U.S. federal jurisdiction and the state of Alabama. With few exceptions, the Organization is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2021.

Functional Allocation of Expenses

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

2. REVENUE

Revenue is generally recognized when it is received. For unconditional promises to give, revenue is recognized when the promise has been fulfilled and the contribution has been received. For contributions with donor-imposed conditions, and for conditional promises to give, revenue is recognized when those conditions have been met. The Organization did not have any promises to give or contributions with donor-imposed conditions for the year ended December 31, 2023.

The Organization's revenue sources are derived from non-federal grants, contributions by individuals and businesses, rent, and donations of food and non-food items by members of the community. As such, the Organization does not have any recorded revenues for the year that qualify for ASC 606 revenue recognition treatment. Revenues totaled \$9,848,953 for the year ended

December 31, 2023. The Organization did not have any donor-restricted revenues for the year that must be classified separately as donor-restricted net assets.

Long-term assets that are donated to the Organization are recorded at their fair value at the date of donation.

3. PROPERTY AND EQUIPMENT

At December 31, 2023, property and equipment consisted of the following:

Buildings	\$ 383,384
Building improvements	395,828
Furniture and equipment	49,009
Leasehold improvements	4,893
Vehicles	169,975
	<u>1,003,089</u>
Less: accumulated depreciation	(217,938)
Property and equipment, net	<u>\$ 785,151</u>

Depreciation expense for the year ended December 31, 2023 was \$54,909.

Property and equipment is disaggregated by form of acquisition for the year ended December 31, 2023 as follows:

Donated property - recorded at fair market value	\$ 214,486
Purchased property - recorded at cost	788,603
Property and equipment, net	<u>\$ 1,003,089</u>

4. LEASE COMMITMENTS

The Organization leases one residential and one office space under non-cancelable operating leases with terms ending through 2028. Both leases currently have indefinite renewal options, which management expects to exercise. Rent expense on these operating leases for the year ended December 31, 2023 totaled \$37,873, and is included in various operating expenses on the statement of activities and changes in net assets.

The Organization also leases one residential space from a private owner under highly favorable terms not conducted at arms length of \$1 per month. This operating lease is considered short-term and lease payments are expensed as incurred.

Other information related to long-term operating leases are as follows:

	2023
Weighted average remaining lease term - operating leases	4 years
Weighted average discount rate - operating leases	4.53%

Future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending December 31,	Operating Leases
2024	\$ 38,100
2025	38,100
2026	38,100
2027	<u>38,100</u>
Total undiscounted lease payments	152,400
Less: implicit interest	<u>(12,825)</u>
Operating lease liability at December 31, 2023	<u><u>\$ 139,575</u></u>

5. LONG-TERM DEBT

At December 31, 2023 long-term debt consisted of the following:

Home mortgage with a bank. Payments of principal and interest (4.29%) totaling \$1,511 are made monthly. All outstanding principal and interest is due in full upon maturity date of August 2024(see Note 10). \$ 154,743

Home mortgage with a bank. Payments of principal and interest (4.5%) totaling \$734 are made monthly. All outstanding principal and interest is due in full upon maturity date of January 21, 2031 53,270

Subtotal 208,013

Less: current maturities (17,913)

Total long-term debt \$ 190,100

Maturities of long-term debt as of December 31, 2023 are as follows:

2024	17,913
2025	17,062
2026	50,938
2027	11,977
2028	12,965
Thereafter	97,158
	<u>\$ 208,013</u>

6. AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of December 31, 2023.

Financial assets at year-end:

Cash and cash equivalents 382,808

Financial assets available to meet cash needs for general
expenditures within one year.

\$ 382,808

As part of the Organization's liquidity management, it maintains cash reserves in excess of daily operating requirements.

7. FUNDRAISING INCOME AND EXPENSE

Total income generated from contributions and fundraising activities was \$885,620 for the year ended December 31, 2023. Fundraising expense was \$43,183 for the year ended December 31, 2023.

8. RELATED PARTY TRANSACTIONS

The Organization rents one residential space and one office space from Jason and Jenny Waltman, LLC. Rent expense for these leases totaled \$38,100 for the year ended December 31, 2023.

The Organization had several renovation costs paid for by Grace Klein Construction, Inc. that were later reimbursed by the Organization, along with other incidental expenses that occurred throughout the year. Detail of the transactions with Grace Klein Construction, Inc. are as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
2/1/2023	Reimbursement for fuel	\$ 141
9/25/2023	Draw on renovation costs for FeedBHM Morgan	15,000
11/21/2023	Reimbursement for shelving purchase for FeedBHM Morgan	16,165
12/15/2023	Remaining renovation costs for FeedBHM Morgan	168,978
		<u>\$200,284</u>

During 2023 the Organization leases one community home to an employee of Grace Klein Community, Inc. Rental income from this lease totaled \$9,000 for the year ended December 31, 2023.

9. COMPENSATED ABSENCES

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Organization's policy is to recognize these costs when paid.

10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 31, 2025, which is the date the financial statements were available to be issued and concluded that one event below that requires disclosure in the financial statements.

During 2024 the Organization refinanced one of their home mortgages with a bank. The new terms extended the maturity date to September 2034, increased the interest rate to 7.95%, and increased the monthly principal and interest payments to \$1,767.