

Youth Dynamics & Shepherd's Staff

COMBINED FINANCIAL STATEMENTS

Years Ended September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

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L. M. HENDERSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS / ADVISORS

Youth Dynamics & Shepherd's Staff

Table of Contents

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

	<u>Page Number</u>
FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Combined Statements of Financial Position	2-3
Combined Statements of Activities and Changes in Net Assets	4
Combined Statements of Cash Flows	5
Combined Statements of Functional Expenses	6 - 7
Notes to Financial Statements	8 - 16



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L. M. HENDERSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS / ADVISORS

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Independent Auditor's Report

To the Board of Directors
Youth Dynamics and Shepherd's Staff
Burlington, Washington

Opinion

We have audited the accompanying combined financial statements of Youth Dynamics (a nonprofit organization) and Shepherd's Staff (an affiliate, nonprofit company), which comprise the combined statement of financial position as of September 30, 2022, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Youth Dynamics and Shepherd's Staff as of September 30, 2022, and the changes in net assets and 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 Youth Dynamics and Shepherd's Staff 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.

Prior Period Financial Statements

The September 30, 2021, financial statements were reviewed by other accountants, and their report thereon, dated October 13, 2022, stated they were not aware of any material modifications that should be made to those financial statements from them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Youth Dynamics and Shepherd's Staff's ability to continue as a going concern within one year after the date that the combined 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 combined 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 combined 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 combined 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 combined 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 Youth Dynamics and Shepherd's Staff'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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Youth Dynamics and Shepherd's Staff'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.



Certified Public Accountants
Indianapolis, Indiana

March 6, 2023

Youth Dynamics and Shepherd's Staff

Combined Statements of Financial Position

at September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

	September 30, 2022	September 30, 2021
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 1,790,348	\$ 1,582,367
Accounts receivable	27,581	29,118
Prepaid insurance	35,508	33,025
Total current assets	<u>1,853,437</u>	<u>1,644,510</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Equipment	740,326	670,995
Buildings and improvements	2,383,964	2,197,734
Vehicles	268,949	244,810
	<u>3,393,239</u>	<u>3,113,539</u>
Less: Accumulated depreciation	1,732,467	1,639,066
	<u>1,660,772</u>	<u>1,474,473</u>
Land	1,418,154	1,288,938
Total property and equipment	<u>3,078,926</u>	<u>2,763,411</u>
<u>OTHER ASSETS:</u>		
Goodwill - Note 13	85,000	-
Less: Accumulated amortization	5,889	-
Total other assets	<u>79,111</u>	<u>-</u>
Total assets	<u>\$ 5,011,474</u>	<u>\$ 4,407,921</u>

See Notes to Financial Statements.

Youth Dynamics and Shepherd's Staff

Combined Statements of Financial Position

at September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

	September 30, 2022	September 30, 2021
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts and credit card payable	\$ 29,066	\$ 31,251
Accrued payroll and related expenses	215,345	185,927
Unearned revenue	13,489	13,329
Current portion of long-term notes payable - Note 4	20,675	26,035
Total current liabilities	<u>278,575</u>	<u>256,542</u>
<u>LONG-TERM LIABILITIES:</u>		
Notes payable - Note 4	113,563	121,463
Less: Current portion	20,675	26,035
Total long-term liabilities	<u>92,888</u>	<u>95,428</u>
Total liabilities	<u>371,463</u>	<u>351,970</u>
<u>NET ASSETS:</u>		
Net assets without donor restrictions - Note 5		
Undesignated - Note 5	1,327,085	925,600
Board designated for branch locations	270,728	359,698
Net investment in property and equipment	2,983,645	2,665,720
Total net assets without donor restrictions	4,581,458	3,951,018
Net assets with donor restrictions - Note 5	58,553	104,933
Total net assets	<u>4,640,011</u>	<u>4,055,951</u>
Total liabilities and net assets	<u>\$ 5,011,474</u>	<u>\$ 4,407,921</u>

Youth Dynamics and Shepherd's Staff

Combined Statements of Activities and Changes in Net Assets

Years Ended September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

	Year Ended September 30, 2022		Totals for the	Year Ended September 30, 2021		Totals for the
	Without Donor Restrictions	With Donor Restrictions	Year Ended September 30, 2022	Without Donor Restrictions	With Donor Restrictions	Year Ended September 30, 2021
SUPPORT AND REVENUE:						
General donations	\$ 3,355,301	\$ 392,983	\$ 3,748,284	\$ 2,716,781	\$ 355,265	\$ 3,072,046
Program fees	378,841	-	378,841	320,230	-	320,230
Rent	155,768	-	155,768	117,999	-	117,999
Area and special events	32,003	-	32,003	73,436	-	73,436
In-kind donations	42,572	-	42,572	31,762	-	31,762
Grants	45,638	-	45,638	171,910	-	171,910
Other	28,145	-	28,145	15,039	-	15,039
Net assets released from restriction	439,363	(439,363)	-	320,569	(320,569)	-
Total support and revenue	4,477,631	(46,380)	4,431,251	3,767,726	34,696	3,802,422
EXPENSES:						
Program services:						
Program expenses:	2,967,320	-	2,967,320	2,387,056	-	2,387,056
Supporting activities:						
Management and general	465,545	-	465,545	469,384	-	469,384
Fundraising	414,326	-	414,326	328,546	-	328,546
Total expenses	3,847,191	-	3,847,191	3,184,986	-	3,184,986
CHANGES IN NET ASSETS	630,440	(46,380)	584,060	582,740	34,696	617,436
NET ASSETS:						
Net assets, beginning of year	3,951,018	104,933	4,055,951	3,333,039	70,237	3,403,276
Prior period adjustment - Note 14	-	-	-	35,239	-	35,239
Net assets, end of year	\$ 4,581,458	\$ 58,553	\$ 4,640,011	\$ 3,951,018	\$ 104,933	\$ 4,055,951

See Notes to Financial Statements.

Youth Dynamics and Shepherd's Staff

Combined Statements of Cash Flows

For the Years Ended September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

	Year Ended	
	September 30, 2022	September 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 584,060	\$ 617,436
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization	5,889	-
Depreciation	125,266	106,992
Gain on sale of fixed assets	(12,733)	(8,700)
Changes in other assets and liabilities:		
(Increase) decrease in accounts receivable	1,537	(29,118)
(Increase) decrease in prepaid insurance	(2,483)	633
Increase (decrease) in accounts payable and credit card payable	(2,185)	5,788
Increase in unearned revenue	160	12,175
Increase in accrued salaries and payroll tax liabilities	29,418	23,905
Total adjustments	144,869	111,675
Net cash provided by operating activities	728,929	729,111
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets and land	(440,781)	(129,594)
Proceeds from the sale of fixed assets	12,733	8,700
Purchase of property resulting in goodwill	(85,000)	-
Net cash used in investing activities	(513,048)	(120,894)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(87,774)	(88,811)
Proceeds from note payable	79,874	79,310
Net cash used in financing activities	(7,900)	(9,501)
NET INCREASE IN CASH AND CASH EQUIVALENTS	207,981	598,716
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,582,367	983,651
End of year	\$ 1,790,348	\$ 1,582,367
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 6,411	\$ 7,243
Gifts-in-kind received, noncash	42,572	31,762
Gifts-in-kind disbursed, noncash	42,572	31,762

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:

During the year ended September 30, 2022, The Organization sold fixed assets with a total cost basis of \$26,865 and total accumulated depreciation of \$26,865 for \$12,733, resulting in a gain of \$12,733.

During the year ended September 30, 2022, The Organization disposed of a fully-depreciated fixed asset with a cost basis of \$5,000.

During the year ended September 30, 2021, The Organization sold fixed assets with a total cost basis of \$8,700 and total accumulated depreciation of \$8,700 for \$8,700, resulting in a gain of \$8,700.

Youth Dynamics and Shepherd's Staff

Combined Statement of Functional Expenses

Year Ended September 30, 2022 (Audited)

	Program Services	Supporting Activities			Total
	Program Expenses	Management and General	Fundraising	Total Supporting Activities	
Advertising	\$ 4,676	\$ 11,543	\$ 5,895	\$ 17,438	\$ 22,114
Amortization	5,889	-	-	-	5,889
Computer related	14,236	53,851	-	53,851	68,087
Conference and training	14,568	6,149	4,378	10,527	25,095
Depreciation	125,266	-	-	-	125,266
Dues and service charges	45,100	9,172	47,853	57,025	102,125
Event fees	46,405	179	19,384	19,563	65,968
Food	103,625	10,987	16,448	27,435	131,060
Gifts	12,203	7,393	4,370	11,763	23,966
Horse supplies	7,224	-	-	-	7,224
Insurance	101,506	15,697	-	15,697	117,203
Interest	6,174	237	-	237	6,411
Miscellaneous	2,331	935	4,982	5,917	8,248
Occupancy	27,002	-	300	300	27,302
Office	82,611	19,043	38,908	57,951	140,562
Professional fees	30,569	6,444	925	7,369	37,938
Salaries, wages & related expenses	2,033,662	283,168	257,426	540,594	2,574,256
Small equipment and maintenance	123,018	5,862	-	5,862	128,880
Student appointment and volunteer	7,230	-	-	-	7,230
Travel	95,617	20,835	13,457	34,292	129,909
Utilities	78,408	14,050	-	14,050	92,458
Total functional expenses	\$ 2,967,320	\$ 465,545	\$ 414,326	\$ 879,871	\$ 3,847,191

See Notes to Financial Statements.

Youth Dynamics and Shepherd's Staff

Combined Statement of Functional Expenses

Year Ended September 30, 2021 (Reviewed)

	Program Services	Supporting Activities			Total
	Program Expenses	Management and General	Fundraising	Total Supporting Activities	
Advertising	\$ 9,316	\$ 13,335	\$ 1,859	\$ 15,194	\$ 24,510
Computer related	16,266	28,052	-	28,052	44,318
Conference and training	14,403	6,742	1,411	8,153	22,556
Depreciation	106,992	-	-	-	106,992
Dues and service charges	26,107	18,121	38,074	56,195	82,302
Event fees	11,276	-	10,219	10,219	21,495
Food	66,256	5,312	13,039	18,351	84,607
Gifts	5,390	9,531	11,307	20,838	26,228
Horse supplies	12,962	-	-	-	12,962
Insurance	82,479	18,817	-	18,817	101,296
Interest	5,594	1,649	-	1,649	7,243
Miscellaneous	6,915	2,020	-	2,020	8,935
Occupancy	6,700	9,750	-	9,750	16,450
Office	51,795	47,136	22,013	69,149	120,944
Professional fees	11,608	17,114	500	17,614	29,222
Salaries, wages & related expenses	1,749,510	243,603	221,457	465,060	2,214,570
Small equipment and maintenance	71,181	12,833	-	12,833	84,014
Student appointment and volunteer	6,023	-	-	-	6,023
Travel	75,685	17,938	8,667	26,605	102,290
Utilities	50,598	17,431	-	17,431	68,029
Total functional expenses	\$ 2,387,056	\$ 469,384	\$ 328,546	\$ 797,930	\$ 3,184,986

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 1: NATURE OF ORGANIZATION

Youth Dynamics is a Washington public benefit corporation organized to invite and challenge youth to a lifelong adventure with Christ and his church. Additionally, by connecting with school campuses, churches, families, and local service organizations in communities in Washington, Idaho and Oregon, Youth Dynamics offers the hope, acceptance, and love found in knowing God personally. Youth Dynamics was incorporated with the State of Washington in 1970, and is supported primarily through contributions from individuals and organizations interested in, and supportive of, its mission.

Shepherd's Staff is a Washington State nonprofit corporation organized to support Youth Dynamics through acquisition, maintenance and operation of assets utilized by Youth Dynamics. Shepherd's Staff was incorporated with the State of Washington in 2004.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) The Organization follows Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "Topic 606")* for recognition of revenue. Topic 606 creates a single framework for recognizing revenue from contracts with customers and grantors that fall within the scope of the standard.
- (b) The combined financial statements include the accounts of Youth Dynamics and Shepherd's Staff (collectively, the Organization). Significant balances and transactions between the two organization have been eliminated in the combination.
- (c) The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at the time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.
- (d) The preparation of combined 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 combined assets and liabilities and disclosures of combined contingent assets and liabilities at the date of the combined financial statements and the reported amounts of combined revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (e) Certain reclassifications have been made to the prior period amounts to conform to the current presentation.

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Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (f) For the purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Organization maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

The Organization has bank accounts at several financial institutions with an aggregate balance of \$1,790,348 as of September 30, 2022. The FDIC insurance limit is \$250,000; therefore, the loss due to credit risk that the Organization could incur if the bank were completely unable to perform would be \$1,003,515 from a single financial institution. The bank accounts at other financial institutions are below the FDIC insurance limit and are not subject to credit risk

- (g) Receivables are recorded at their net realizable value. Net realizable value is equal to the gross amount of receivables, less an estimated allowance for doubtful accounts. Management of the Organization bases its estimate of doubtful accounts on several factors. These factors include the Organization's prior experience collecting receivables, the aging of receivables at year-end, and management's appraisal of current economic conditions. Based upon the above factors, management considers all receivables to be fully collectible and therefore has not made any allowance for uncollectable receivables. All receivables are expected to be collected within one year.
- (h) The Organization capitalizes all property and equipment acquisitions in excess of \$1,000. Property and equipment are recorded at cost or, if acquired as a donation, at the estimated fair market value at the date of donation. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repair and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which range from 3 to 40 years.
- (i) The statements report amounts separately by class of net assets:

Net assets without donor restrictions are resources available to support operations and are not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application of tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (j) Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor restrictions or by law. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose of restrictions. When donor restrictions are met during the same period that the contribution is received, the contribution is recorded as without donor restrictions.
- (k) Advertising costs are expensed as incurred. Advertising and promotion expense totaled \$22,114 and \$24,510 for the years ended September 30, 2022 and September 30, 2021, respectively.
- (l) Management has evaluated subsequent events through March 6, 2023, the date that the financial statements were available to be issued.

Note 3: DONATED GOODS AND SERVICES

In-kind donations of roofing materials, paint, adventure gear, and other goods are recorded at fair value on the date of receipt. In-kind donations for the years ended September 30, 2022 and September 30, 2021 were \$42,572 and \$31,762, respectively. Donated services are recognized only if services received; (a) create or enhance non-financial assets or (b) require special skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying combined financial statements as they do not meet the criteria for recognition. Donated goods are as follows:

	September 30, <u>2022</u>	September 30, <u>2021</u>
Net assets without donor restrictions:		
Goods received for fundraising	\$ 18,340	\$ 502
Goods received for general purposes	<u>24,232</u>	<u>31,260</u>
Total net assets without restrictions	<u>\$ 42,572</u>	<u>\$ 31,762</u>

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 4: NOTES PAYABLE

In January 2019, the Organization entered into a \$103,000 promissory note with Heritage Bank, maturing in January 2029, to finance the purchase of a new facility in Idaho. Monthly interest payments are due at a rate of 5.52% for the first 60 months, followed by monthly interest payments at the Federal Home Loan Bank rate plus 2.5%, with a floor interest rate of 5.52% for the remainder of the term. The balance was \$95,281 and \$97,691 at September 30, 2022 and September 30, 2021, respectively.

Each year, the Organization obtains a short-term loan from Capital Premium Financing to pay for insurance. The loan taken out in February 2021, was fully paid by February 2022, and the loan taken out in February 2022 was fully paid by February 2023 and required interest at a rate of 4% per annum. The outstanding balance was \$18,282 and \$23,772 at September 30, 2022 and 2021, respectively.

The Organization was obligated at September 30, 2022 and September 30, 2021 on the following notes payable:

	September 30, <u>2022</u>	September 30, <u>2021</u>
Note payable due to Heritage Bank requiring monthly payments of \$638, including a minimum interest rate at 5.52% per annum due January 2029.	\$ 95,281	\$ 97,691
Note payable due to Capital Premium Financing requiring monthly payments of \$9,023, including interest at 4.00% per annum due February 2023.	18,282	-
Note payable due to Capital Premium Financing requiring monthly payments of \$8,988, including interest at 4.00% per annum due February 2022.	<u>-</u>	<u>23,772</u>
	113,563	121,463
Less: Current portion	<u>20,675</u>	<u>26,035</u>
Total long-term note payable	<u>\$ 92,888</u>	<u>\$ 95,428</u>

Annual principal payments on long term debt for future years ending September 30 are as follows:

Year Ending <u>September 30,</u>	<u>Amounts</u>
2023	\$ 20,675
2024	2,515
2025	2,474
2026	2,828
2027	2,990
Thereafter	<u>82,081</u>
Total	<u>\$ 113,563</u>

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 5: NET ASSETS

Net assets consist of:

	September 30, <u>2022</u>	September 30, <u>2021</u>
Net assets without donor restrictions:		
Undesignated	\$ 1,327,085	\$ 925,600
Board designated for branch locations	270,728	359,698
Net investment in property and equipment	<u>2,983,645</u>	<u>2,665,720</u>
Total net assets without restrictions	<u>\$ 4,581,458</u>	<u>\$ 3,951,018</u>
Net assets with donor restrictions:		
Building improvements	\$ 37,862	\$ 104,933
Vehicle purchases	<u>20,691</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 58,553</u>	<u>\$ 104,933</u>

As of September 30, 2022 and September 30, 2021, available liquid assets were sufficient relative to net assets with donor restrictions.

Note 6: EMPLOYEE BENEFIT PLANS

Effective November 1, 2021, The Organization established a 401(k) Retirement plan which matches voluntary employee deferrals 1/2% up to the first 6% for a total potential match of 3%. Employees may begin contributing to the plan after 30 days of employment and are eligible for the match after 6 months of employment. Total 401(k) match for the years ending September 30, 2022 and September 30, 2021 were \$25,324 and \$-0-, respectively.

Note 7: PAYMENTS TO AFFILIATED ORGANIZATIONS

Youth Dynamics leases several facilities from Shepherd's Staff for use in the Organization's programs and operations. Youth Dynamics leases facilities in Washington State in Anacortes, Chelan County, and Burlington, as well as in Boise, Idaho, under the terms of five-year operating lease agreements that mature on December 31, 2025. The agreements contain four additional options to extend five years each. Youth Dynamics pays no monthly rental payments for these related party operating lease agreements. In 2019, Youth Dynamics began leasing space from Shepherd's Staff in Idaho. Monthly payments are set at \$639. The rent expense associated with these lease agreements have been eliminated.

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 8: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects The Organization's financial assets available as of September 30, 2022 and September 30, 2021, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the year ended:

	September 30, 2022	September 30, 2021
Financial assets, at year end*	\$ 1,817,929	\$ 1,611,485
Less financial assets unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restrictions by donor with purpose restrictions	58,553	104,933
Board imposed restrictions:		
Restrictions by board with purpose restrictions	<u>270,728</u>	<u>359,698</u>
Total	<u>\$ 1,488,648</u>	<u>\$ 1,146,854</u>

**Total asset, less nonfinancial assets*

The Organization has certain donor-restricted and board-designated assets limited to use, which are not available for general expenditure within one year in the normal course of business. Accordingly, these assets have been excluded from the quantitative information above. The Organization is in the process of developing its cash management and reserves policy. Historically, the Organization has informally attempted to maintain a minimum of two months operating expenses.

Note 9: TAX STATUS

On July 30, 2002, the corporation has been determined by the Internal Revenue Service to be tax exempt under Section 501(c)(3) of the Internal Revenue Code. (Code) The Organization is also classified as a publicly supported corporation, which is not a private corporation under Section 509(a)(2) of the Code. Contributions to the Organization are deductible for income tax purposes.

Management evaluates all tax positions taken or expected to be taken on its annual information returns, including the position that the corporation continues to qualify to be treated as a Section 501(c)(3) corporation for both federal and state purposes. For the years ended September 30, 2022 and September 30, 2021, management does not feel it has taken any tax positions that would not be sustained under examination. Therefore, no interest or penalties have been accrued or charged to expense as of September 30, 2022 and September 30, 2021, or the periods then ended. The annual information returns for the corporation are subject to examination by taxing authorities for a period of three years from the date they are filed.

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 10: FUNCTIONAL EXPENSES

The cost of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited and have been allocated on a reasonable basis that is consistently applied. Salaries, wages, and related costs are allocated based on time and effort. All other allocated expenses are allocated based on estimates of usage. Program services expense was \$2,967,320 and \$2,387,056 and support services expense was \$879,871 and \$797,930 for the years ended September 30, 2022 and September 30, 2021, respectively.

Note 11: OPERATING LEASES

During July 2022, the Organization entered into an operating lease agreement for facilities in Canby, Oregon. Monthly payments are set at \$850 until the lease expires on August 1, 2027.

In October 2018, the Organization entered into an operating lease agreement for a copier/scanner to be used in the corporate office. Monthly payments are \$259 plus tax for 63 months with payments made quarterly through December 2023.

The Organization leases other facilities and equipment under operating lease agreements on a month-to-month basis.

Total lease expense for the years ending September 30, 2022 and September 30, 2021 was \$27,302 and \$16,450, respectively.

Future minimum lease payments for the years ended September 30 are as follows:

Year Ended	Amount
<u>September 30,</u>	
2023	\$ 11,044
2024	10,200
2025	10,200
2026	10,200
2027	8,500
Total future minimum lease payments	<u>\$ 50,144</u>

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

Note 12: REVENUE FROM CONTRACTS WITH CUSTOMERS

The Organization's revenue from contracts in the scope of Topic 606 is recognized within revenue on the financial statements. The following table reflects only the categories of income that are within the scope of Topic 606:

	September 30, 2022	September 30, 2021
Program fees	\$ 378,841	\$ 320,230
Rent	155,768	117,999
Area and special events	32,003	73,436
Totals	<u>\$ 566,612</u>	<u>\$ 511,665</u>

The adoption of Topic 606 did not have a material impact on the financial position, activities, net assets, or cash flows. A description of the revenue categories is provided below.

Program fees: The Organization will transport youths to one of their several Adventure Bases where they will participate in various excursions, such as white river rafting. Revenue received for these excursions is recognized at the time of the event.

Rent: The Organization provides lodging for participants during the course of their stay at Adventure Bases. The revenue received for purposes of lodging is recognized at the time of the stay.

Area and special events: The Organization will host various galas and other related special events throughout the year for purposes of fundraising. The revenue received to participate in these special events is recognized at the commencement of these events.

Note 13: GOODWILL

In January 2022, The Organization purchased property in Idaho for the purpose of building a new Adventure Base. The purchase of the property included land, buildings, equipment, and unrestricted access to the Salmon River via a permit which expires in March 2032. The fair market value of the purchase exceeded the transaction price by \$85,000, which the Organization has recognized as goodwill amortized over 10 years. Total amortization expense for the year ended September 30, 2022 was \$5,889.

Management has evaluated the impairment of goodwill and has concluded that no impairment exists for the year ending September 30, 2022. Management will continue to evaluate the impairment of goodwill on an annual basis.

Youth Dynamics & Shepherd's Staff

Notes to the Financial Statements

September 30, 2022 (Audited) and September 30, 2021 (Reviewed)

NOTE 14: PRIOR PERIOD ADJUSTMENT

At September 30, 2022, prior period adjustments were made to properly report assets, liabilities, net assets, revenue and functional expenses that were either included or excluded due to management errors during the year ended September 30, 2021. The prior period adjustments resulted in a decrease in cash of \$34,005, an increase to accounts receivable of \$28,618, an increase to accounts payable and credit card payable of \$4,061, a decrease to accrued payroll and related expenses of \$16,620, an increase to unearned revenue by \$13,329, an increase to net assets by \$35,239, an increase to total revenue by \$9,435, and an increase to total functional expenses by \$21,413 for the year ended September 30, 2021.

