

INTERFAITH COMMUNITY SERVICES

**AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

INTERFAITH COMMUNITY SERVICES
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YEARS ENDED JUNE 30, 2020 AND 2019

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Interfaith Community Services
Tucson, Arizona

We have audited the accompanying financial statements of Interfaith Community Services (an Arizona nonprofit corporation), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider 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 Interfaith Community Services as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HBL CPAs, P.C.

HBL CPAs, P.C.

October 2, 2020

INTERFAITH COMMUNITY SERVICES
STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents:		
Available for operations	\$ 1,191,459	\$ 468,514
Allocated to board-designated quasi endowment	7,041	3,091
Allocated to donor-restricted endowment	26,355	38,740
	1,224,855	510,345
Certificates of deposit held at banks	254,035	150,641
Investments:		
Allocated to board-designated quasi endowment	1,288,585	363,781
Allocated to donor-restricted endowment	3,169,276	3,259,807
	4,457,861	3,623,588
Government and foundation grants receivable	103,664	245,717
Bequest receivable	75,000	-
Current portion of in-kind contribution receivable	9,840	9,840
Current portion of contribution receivable - beneficial interest in charitable lead annuity trust	125,815	125,815
Food box inventory	46,225	39,387
Prepaid expenses	16,830	17,526
Total current assets	6,314,125	4,722,859
Beneficial interest in fund held by others	25,103	25,661
Long-term in-kind contribution receivable, net	61,364	67,367
Long-term contribution receivable - beneficial interest in charitable lead annuity trust, net	132,168	217,169
Property and equipment	1,416,324	1,479,358
Total assets	\$ 7,949,084	\$ 6,512,414
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 43,777	\$ 46,698
Accrued payroll and related taxes	104,752	69,125
Deferred grant revenue	99	1,000
Refundable grant advance	322,410	-
Total current liabilities	471,038	116,823
Net assets:		
Without donor restrictions:		
Undesignated	649,015	686,899
Designated:		
Board-designated for purpose	359,188	-
Board-designated quasi endowment	1,295,626	366,872
Expended for property and equipment	1,416,324	1,479,358
	3,720,153	2,533,129
With donor restrictions:		
For future periods	71,829	89,832
For purpose	207,347	105,438
Endowments:		
Accumulated earnings subject to appropriation and expenditure	471,732	701,858
With restrictions perpetual in nature	3,006,985	2,965,334
Total endowments	3,478,717	3,667,192
Total net assets with donor restrictions	3,757,893	3,862,462
Total net assets	7,478,046	6,395,591
Total liabilities and net assets	\$ 7,949,084	\$ 6,512,414

INTERFAITH COMMUNITY SERVICES

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Revenues and public support:			
Bequests	\$ 313,245	\$ -	\$ 313,245
Congregational support	208,697	81,444	290,141
General contributions	1,768,017	328,355	2,096,372
Government grants	-	903,634	903,634
Foundation grants	138,387	625,688	764,075
Service income	61,141	-	61,141
In-kind contributions	5,524,860	3,837	5,528,697
Special events, net of \$54,929 direct donor benefit costs	72,198	32,877	105,075
Investment losses	(64,831)	(56,640)	(121,471)
Other income	2,948	-	2,948
	<u>8,024,662</u>	<u>1,919,195</u>	<u>9,943,857</u>
Net assets released from restriction	<u>2,023,764</u>	<u>(2,023,764)</u>	<u>-</u>
Total revenues and public support	10,048,426	(104,569)	9,943,857
Expenses:			
Program services	8,001,037	-	8,001,037
Administration	514,804	-	514,804
Fundraising	345,561	-	345,561
Total expenses	<u>8,861,402</u>	<u>-</u>	<u>8,861,402</u>
Change in net assets	1,187,024	(104,569)	1,082,455
Net assets, beginning of year	<u>2,533,129</u>	<u>3,862,462</u>	<u>6,395,591</u>
Net assets, end of year	<u>\$ 3,720,153</u>	<u>\$ 3,757,893</u>	<u>\$ 7,478,046</u>

INTERFAITH COMMUNITY SERVICES

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Revenues and public support:			
Bequests	\$ 358,898	\$ -	\$ 358,898
Congregational support	186,457	94,042	280,499
General contributions	720,069	201,117	921,186
Government grants	-	1,191,511	1,191,511
Foundation grants	105,074	567,466	672,540
Service income	58,421	-	58,421
In-kind contributions	4,034,068	4,123	4,038,191
Special events, net of \$70,478 direct donor benefit costs	78,869	9,500	88,369
Investment income	12,899	73,253	86,152
Other income	936	-	936
	<u>5,555,691</u>	<u>2,141,012</u>	<u>7,696,703</u>
Net assets released from restriction	<u>2,174,941</u>	<u>(2,174,941)</u>	<u>-</u>
Total revenues and public support	7,730,632	(33,929)	7,696,703
Expenses:			
Program services	6,564,497	-	6,564,497
Administration	416,490	-	416,490
Fundraising	334,868	-	334,868
Total expenses	7,315,855	-	7,315,855
Change in net assets	414,777	(33,929)	380,848
Net assets, beginning of year	<u>2,118,352</u>	<u>3,896,391</u>	<u>6,014,743</u>
Net assets, end of year	\$ <u><u>2,533,129</u></u>	\$ <u><u>3,862,462</u></u>	\$ <u><u>6,395,591</u></u>

INTERFAITH COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Program Services							Supporting Services			
	Emergency financial assistance	Food bank	Workforce development centers	Single Mom Scholars	Caregiving & senior services	Community Health Outreach	Community engagement	Total program services	Adminis-tration	Fundraising	Total
Salaries and wages	\$ 284,993	\$ 83,264	\$ 54,065	\$ 73,715	\$ 173,670	\$ 140,269	\$ 178,675	\$ 988,651	\$ 365,978	\$ 183,404	\$ 1,538,033
Payroll taxes	22,134	6,072	4,004	5,490	12,893	10,774	12,879	74,246	25,832	12,592	112,670
Benefits	13,531	4,356	6,133	7,643	7,209	8,743	9,873	57,488	28,099	13,949	99,536
	<u>320,658</u>	<u>93,692</u>	<u>64,202</u>	<u>86,848</u>	<u>193,772</u>	<u>159,786</u>	<u>201,427</u>	<u>1,120,385</u>	<u>419,909</u>	<u>209,945</u>	<u>1,750,239</u>
Client assistance:											
Food boxes	-	4,800,857	-	-	6,601	-	-	4,807,458	-	-	4,807,458
Mobile meal trays	-	-	-	-	60,890	-	-	60,890	-	-	60,890
Shelter assistance	437,025	-	-	4,009	-	-	-	441,034	-	-	441,034
Utility assistance	591,210	-	-	610	-	-	-	591,820	-	-	591,820
Other client assistance	130,756	14,400	1,905	114,878	350	-	-	262,289	-	-	262,289
Depreciation	17,127	27,579	10,260	1,631	4,907	712	9,990	72,206	3,945	3,246	79,397
Direct donor benefit costs	-	-	-	-	-	-	-	-	-	54,929	54,929
Insurance	4,501	14,589	2,727	428	3,507	180	5,068	31,000	4,447	868	36,315
Investment fees	-	-	-	-	-	-	-	-	20,327	-	20,327
Lease expense	10,671	6,099	7,614	350	2,368	496	991	28,589	1,005	1,020	30,614
Miscellaneous expense	3,992	1,183	1,769	2,180	2,325	4,018	5,967	21,434	23,895	30,075	75,404
Office expense	18,842	19,549	9,514	4,192	16,871	10,624	20,780	100,372	7,230	12,815	120,417
Postage	-	55	-	82	-	30	591	758	3,029	10,045	13,832
Printing	490	195	51	284	353	4,015	7,596	12,984	188	19,986	33,158
Professional services	17,431	11,132	5,225	6,465	14,244	10,670	32,255	97,422	40,423	45,075	182,920
Repairs and maintenance	2,105	14,010	1,284	313	6,378	432	1,259	25,781	972	945	27,698
Supplies	7,411	9,750	1,203	1,296	1,498	14,632	14,889	50,679	3,693	5,360	59,732
Telephone	7,850	4,559	3,752	968	7,072	1,474	6,128	31,803	2,898	2,839	37,540
Travel	2,726	215	346	1,224	1,692	3,664	2,224	12,091	1,103	1,471	14,665
Utilities	5,003	9,199	3,452	722	3,686	673	2,278	25,013	2,067	1,871	28,951
Volunteer mileage reimbursement	-	-	-	-	128,324	-	78,705	207,029	-	-	207,029
Total functional expenses	<u>1,577,798</u>	<u>5,027,063</u>	<u>113,304</u>	<u>226,480</u>	<u>454,838</u>	<u>211,406</u>	<u>390,148</u>	<u>8,001,037</u>	<u>535,131</u>	<u>400,490</u>	<u>8,936,658</u>
Less:											
Direct donor benefit costs netted against special event revenues	-	-	-	-	-	-	-	-	-	(54,929)	(54,929)
Investment fees netted against investment income	-	-	-	-	-	-	-	-	(20,327)	-	(20,327)
Total expenses	<u>\$ 1,577,798</u>	<u>\$ 5,027,063</u>	<u>\$ 113,304</u>	<u>\$ 226,480</u>	<u>\$ 454,838</u>	<u>\$ 211,406</u>	<u>\$ 390,148</u>	<u>\$ 8,001,037</u>	<u>\$ 514,804</u>	<u>\$ 345,561</u>	<u>\$ 8,861,402</u>

The accompanying notes are an integral part of these financial statements.

INTERFAITH COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services							Supporting Services			
	Emergency financial assistance	Food bank	Workforce development centers	Single Mom Scholars	Caregiving & senior services	Community Health Outreach	Community engagement	Total program services	Admin-istration	Fundraising	Total
Salaries and wages	\$ 291,015	\$ 48,341	\$ 46,598	\$ 41,110	\$ 179,714	\$ 180,190	\$ 194,183	\$ 981,151	\$ 291,974	\$ 197,868	\$ 1,470,993
Payroll taxes	21,347	3,787	3,465	2,908	13,532	13,515	14,226	72,780	21,499	15,217	109,496
Benefits	8,548	1,583	5,221	3,255	7,874	8,798	11,472	46,751	17,346	16,139	80,236
	320,910	53,711	55,284	47,273	201,120	202,503	219,881	1,100,682	330,819	229,224	1,660,725
Client assistance:											
Food boxes	-	3,243,112	-	-	-	-	-	3,243,112	-	-	3,243,112
Mobile meal trays	-	-	-	-	61,486	-	-	61,486	-	-	61,486
Shelter assistance	457,036	-	-	7,998	-	-	-	465,034	-	-	465,034
Utility assistance	635,233	-	-	-	-	-	-	635,233	-	-	635,233
Other client assistance	188,860	-	3,003	91,775	-	-	-	283,638	-	-	283,638
Depreciation	9,917	36,369	5,332	1,144	8,329	3,527	6,580	71,198	5,166	4,028	80,392
Direct donor benefit costs	-	-	-	-	-	-	-	-	-	70,478	70,478
Insurance	3,840	16,387	3,190	259	4,056	810	3,938	32,480	3,979	923	37,382
Investment fees	-	-	-	-	-	-	-	-	18,744	-	18,744
Lease expense	6,728	12,683	7,396	177	847	504	941	29,276	752	586	30,614
Miscellaneous expense	3,399	1,056	4,780	2,923	2,665	4,075	9,774	28,672	19,909	27,085	75,666
Office expense	13,094	12,469	5,907	1,046	11,445	8,422	17,879	70,262	5,931	7,624	83,817
Postage	1,270	741	491	109	1,916	490	5,272	10,289	865	5,066	16,220
Printing	4,716	436	606	27	1,891	1,131	19,497	28,304	1,524	14,220	44,048
Professional services	16,448	5,390	5,078	6,496	16,997	51,548	33,177	135,134	27,345	29,139	191,618
Repairs and maintenance	1,731	15,476	1,129	151	4,411	520	1,421	24,839	1,709	649	27,197
Supplies	12,973	9,366	3,613	1,145	7,868	9,634	16,132	60,731	11,850	12,143	84,724
Telephone	5,805	3,550	2,902	393	8,371	1,961	8,404	31,386	3,462	2,109	36,957
Travel	3,369	644	590	2,088	2,831	6,568	4,351	20,441	1,347	648	22,436
Utilities	3,748	9,657	2,219	360	2,016	1,287	2,412	21,699	1,832	1,424	24,955
Volunteer mileage reimbursement	-	-	-	-	135,230	-	75,371	210,601	-	-	210,601
Total functional expenses	1,689,077	3,421,047	101,520	163,364	471,479	292,980	425,030	6,564,497	435,234	405,346	7,405,077
Less:											
Direct donor benefit costs netted against special event revenues	-	-	-	-	-	-	-	-	-	(70,478)	(70,478)
Investment fees netted against investment income	-	-	-	-	-	-	-	-	(18,744)	-	(18,744)
Total expenses	\$ 1,689,077	\$ 3,421,047	\$ 101,520	\$ 163,364	\$ 471,479	\$ 292,980	\$ 425,030	\$ 6,564,497	\$ 416,490	\$ 334,868	\$ 7,315,855

The accompanying notes are an integral part of these financial statements.

INTERFAITH COMMUNITY SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,082,455	\$ 380,848
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	79,397	80,392
Realized (gains) losses on investments	4,737	(5,365)
Unrealized losses on investments	207,935	29,170
Donated securities	(336,907)	(13,096)
Change in present value of in-kind and interest in charitable lead annuity trust contributions receivable	(19,487)	(23,822)
Change in donated food box inventory	(6,838)	4,476
Change in value of beneficial interest in fund held by others	(453)	(410)
Change in value of certificates of deposit held at banks	(3,394)	(641)
(Increase) decrease in operating assets:		
Government and foundation grants receivable	142,053	(139,974)
Bequest receivable	(75,000)	-
In-kind contribution receivable	9,840	9,840
Prepaid expenses	696	11,068
Increase in operating liabilities:		
Accounts payable	(2,921)	(111)
Accrued payroll and related taxes	35,627	7,836
Deferred grant revenue	(901)	(17,300)
Refundable grant advance	322,410	-
Proceeds from sales of donated securities	336,907	13,096
Less contributions restricted for long-term purposes	<u>(26,000)</u>	<u>(10,000)</u>
Net cash provided by operating activities	1,750,156	326,007
Cash flows from investing activities:		
Proceeds from sale of purchased investments	234,818	191,072
Distribution of beneficial interest in fund held by others	1,011	1,013
Purchases of investments	(1,281,763)	(359,691)
Purchases of certificates of deposit held at banks	(100,000)	(150,000)
Purchases of property and equipment	<u>(16,363)</u>	<u>(176,325)</u>
Net cash (used in) investing activities	(1,162,297)	(493,931)
Cash flows from financing activities:		
Cash contributions for long-term purposes	26,000	10,000
Distribution from beneficial interest in charitable lead annuity trust	<u>100,651</u>	<u>100,651</u>
Net cash provided by financing activities	<u>126,651</u>	<u>110,651</u>
Change in cash and cash equivalents	714,510	(57,273)
Cash and cash equivalents, beginning of year	<u>510,345</u>	<u>567,618</u>
Cash and cash equivalents, end of year	<u>\$ 1,224,855</u>	<u>\$ 510,345</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 – Organization

Interfaith Community Services (ICS) is an Arizona nonprofit corporation, incorporated in 1985. Funding for ICS comes primarily from contributions from affiliated congregations, individual donations, grants and special events. ICS is a non-sectarian, faith-based, social services organization with a network of partnering faith communities that provides the following services:

Emergency Financial Assistance – ICS Emergency Financial Assistance program provides financial assistance, short-term case management, and other support for individuals or families in emergency situations or to prevent homelessness. The goal is to provide for acute basic needs that help clients in distress get back on their feet and take steps toward stability and independence. The types of assistance include: rent and shelter, utilities, emergency prescription medications, travel funds, food and gas vouchers, and back-to-work expenses such as permits, ID's and clothing vouchers. In addition, Gifts of Love matches pre-screened individuals and families with others who are willing to help with special needs all year round. This program also provides free tax preparation for individuals and families with low to moderate incomes.

Food Bank – ICS Food Bank partners with the Community Food Bank of Southern Arizona to distribute emergency food boxes each month to low-income seniors, individuals and families in need. Registered households can receive one food box per month, filled with basic food staples. Through year-round community donations, ICS offers additional food items, bread, fresh produce, dairy products and household products. During the holidays, ICS gives out additional holiday food bags containing the makings for a traditional holiday meal. ICS is dependent upon community food drives and donations to help keep the shelves stocked and to offer a selection of healthy foods to households in hardship.

Workforce Development – ICS Workforce Development program assist clients in their goal of self-sufficiency, starting with the ability to secure and retain a stable job and to identify pathways for career development. ICS volunteers work one-on-one with job seekers to set employment goals and objectives, assist with resume writing, provide interview coaching and offer encouragement to position clients to be more competitive in today's employment market. Other services include classes on financial literacy and basic computer skills. All services are free.

Single Mom Scholars – ICS Single Mom Scholars program provides assistance to low-income single mom college student families while the mother pursues a college education and financial independence. In addition to an annual scholarship to offset education and living expenses, the program provides multi-faceted program benefits including AAA, auto repair, dental care, feminine products, mentorship, emergency assistance, clothing, laptops, a graduate mentorship program, and more. Each scholar attends monthly meetings where they form a peer support system and are provided life skills and financial literacy education.

Caregiving and Senior Services – Caregiving and Senior services provides help to seniors and disabled individuals to live independently in their own homes, without the need for institutional care. Volunteers provide services such as mobile meals, transportation for medical appointments and shopping, reassurance calls, friendly phoning, friendly visiting, small home repairs and business help. The Mobile Meals program provides delivery of fresh nutritious meals each weekday to elderly, physically challenged or convalescing adults who are unable to cook for themselves. This program aims to maintain or restore clients' health or hasten recuperation during convalescence and help clients avoid hospital/nursing home stays. Volunteers use their own vehicles for these services with the exception of a handicap mini-van made possible through a 5310 Transit Grant through the Arizona Department of Transportation. Most services are provided at no cost except for Mobile Meals, which is provided on a sliding-scale fee basis based on ability to pay. More than 60% of Mobile Meals recipients receive full or partially-subsidized meals.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 1 – Organization, continued

Community Health Outreach – The ICS Community Health Outreach program brings together health facilities, faith communities, and social services to enable individuals to lead healthier lives and help vulnerable individuals in our community to stay healthy at home. The program includes training workshops, health advocacy programs, and our advanced care planning and coaching program. The training workshops include Mental Health First Aid and Advanced Care Planning workshops and forums.

Community Engagement – ICS partners with many agencies and diverse faith communities in order to respond to low-income, senior and disabled individuals in the greater Tucson area. Activities in this category focus on providing information and communications with these partners, educating them in the services provided and how to refer clients to ICS. These partners are also essential points of contact for announcing volunteer opportunities since over 1,000 volunteers are integral to all programs. Volunteers are the community connection point for ICS and the majority of the agency's direct services to clients are carried out by volunteers. As a result, nurturing and supporting the volunteer base is taken very seriously at ICS. This includes regular orientations for new volunteers, a rigorous registration process which includes background checks, placement and specialized training for the specific assignment. An annual volunteer recognition program is also in place.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

The financial statements of ICS have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require ICS to report information regarding its financial position and activities according to the following net asset classifications:

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 objectives of the organization. These net assets may be used at the discretion of ICS's 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 ICS or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Use of 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.

Cash and cash equivalents

ICS considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. ICS maintains its cash in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. Uninsured cash totaled \$355,300 at June 30, 2020. One grantor requires ICS to maintain grant funds in a separate bank account. ICS was in compliance with this requirement for the years ended June 30, 2020 and 2019.

Although ICS reports cash and cash equivalents allocated to donor-restricted endowments on the statements of financial position, there were no cash and cash equivalents restricted for long-term purposes at either June 30, 2020 or 2019, as the portion of the endowments that are restricted in perpetuity were maintained in ICS' investment accounts. See Note 9.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 2 – Summary of significant accounting policies, continued

Certificates of deposit held at banks

Certificates of deposit held at banks bear interest ranging between 0.75% and 2.95% at June 30, 2020 and 2019, with original maturity ranging from 8 months to 24 months. Any penalty for early withdrawal would not have a material effect on the financial statements.

Government and foundation grants receivable

Government and foundation grants receivable are stated at balances expected to be collected from governmental entities on outstanding balances and from foundations for grants awarded but not paid as of year end. Management believes that all such receivables are fully collectible, and accordingly has recorded no valuation allowance. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is ICS' policy to charge off uncollectible grants receivable if and when management determines the receivable will not be collected.

Property and equipment

Purchased property and equipment are carried at cost. Donated equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. ICS capitalizes all expenditures for equipment in excess of \$2,500 with a useful life of more than one year.

Inventory

Inventory consists of food and hygiene items donated to ICS, and is valued based on applying a blended average of retail prices per pound.

Revenue, revenue recognition and refundable grant advances

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the nature of the restrictions. When a restriction expires, that is, when funds are expended in accordance with donor restrictions, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Payments received for conditional contributions are recorded as liabilities, reported in the statement of financial position as refundable grant advances. Conditional contributions are unrecognized initially, in the case of conditional promises to give, until the barriers to entitlement are overcome. At that point, the transaction is recognized as unconditional and classified as either net assets with restriction or net assets without restrictions, based on the nature of the underlying transaction.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 2 – Summary of significant accounting policies, continued

Refundable grant advance

Refundable grant advances result from payments received in advance on grants that are conditional in nature and for which specific requirements remain. A conditional grant is defined by both the right of return of funds and one or more measurable barriers to entitlement. Payments received in advance of satisfying the required conditions are recorded as refundable grant advance liabilities. Revenue for grants that are considered to be conditional is recognized as specific barriers are overcome.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. See Note 15. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although ICS utilizes the services of outside volunteers, the fair value of these services has not been recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Income tax status

ICS is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to its tax-exempt purpose may be subject to taxation as unrelated business income. In addition, ICS qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(11) and is classified as an organization other than a private foundation under Section 509(a)(1).

ICS has not identified any uncertain tax positions that require reporting under U.S. generally accepted accounting principles. ICS would recognize costs related to any such uncertainties as interest expense and penalties in operating expenses. During the years ended June 30, 2020 and 2019, ICS recognized no such interest or penalties.

Endowments

ICS's endowments consist of two funds established under donor restriction and one fund designated by the Board of Directors to function as an endowment. These funds are held at the Community Foundation for Southern Arizona (Founders Endowment) and at a brokerage house (ICS Endowment and Board-designated quasi endowment). As required by generally accepted accounting principles, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of ICS has interpreted the State of Arizona's Management of Charitable Funds Act (MCFA or the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ICS classifies as net assets with donor restriction in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction in perpetuity is classified as with donor restrictions satisfied by time or action until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 2 – Summary of significant accounting policies, continued

Endowments, continued

In accordance with the Act, ICS considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

New accounting pronouncements

In January of 2016, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. FASB subsequently issued 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of the guidance in ASU 2016-01. This guidance expands the scope of fair value reporting for investments on the statement of financial position with changes included in the change in net assets on the statement of activities to include equity investments in partnerships, unincorporated joint ventures, and limited liabilities companies; collectively referred to as equity securities. The updated standard allows equity securities for which there is not a readily determinable fair value and do not qualify to use the practical expedient to estimate fair value using net asset value may elect to measure value at cost less impairment, if any, and observable price changes in orderly transactions for identical or similar investments. During the year ended June 30, 2020, ICS implemented the provisions of ASU 2016-01 and ASU 2018-03 applicable to investments in the accompanying financial statements on a retrospective basis. Implementation of these ASUs did not result in any reclassification or restatements of net assets, by class or in total, as originally reported in any previous accounting period.

In November of 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows and reduce diversity of practice. The amendments to the ASU require that amounts generally described as restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ICS implemented this ASU during the year ended June 30, 2020 on a full retrospective basis, with no impact on net assets, by class or in total, as originally reported in any previous accounting period.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions by providing criteria for determining whether a resource provider is receiving commensurate value in return for resources transferred. The guidance makes clear that a resource provider, including a foundation, a government agency or other, is not synonymous with the general public, and that a benefit received by the public or the execution of a resource provider’s mission by providing a benefit to the public, is not equivalent to commensurate value received by the resource provider. The ASU also provides guidance for determining whether a contribution is conditional. During the year ended June 30, 2020, ICS implemented the provisions of ASU 2018-08 applicable to contributions in the accompanying financial statements on a retrospective basis, with no impact on net assets, by class or in total, as originally reported in any previous accounting period.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 2 – Summary of significant accounting policies, continued

New accounting pronouncements, continued

In August of 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The ASU provides guidance on the classification of certain transactions in the statement of cash flows and reduces diversity in practice. During the year ended, June 30, 2020, ICS implemented the provisions of ASU 2016-15 on a full retrospective basis, with no impact on net assets, by class or in total, as originally reported in any previous accounting period.

Advertising

Advertising costs are expensed as incurred. Advertising costs for the years ended June 30, 2020 and 2019 were \$7,230 and \$12,480, respectively, and are included in miscellaneous expense on the statements of functional expenses.

Functional allocation of expense

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents expenses by natural classification and by function in a matrix format, as required by accounting principles generally accepted in the U.S. Certain costs have been allocated between the program services and supporting services.

Expenses are typically allocated based on a method that is deemed appropriate by management in the manner in which the expense is accrued. Indirect costs are the only expenses that are deemed as administrative by function. Management typically codes expenses to a program, administrative, fundraising or another shared expense category during the payment process. Shared expenses are allocated either by percentage of staff time within the administrative, fundraising, and program categories or based on the (1) square footage allocations or (2) headcount allocation including normal office volunteers.

Shared direct expenses are typically those that are incurred in support of program work and can be allocated by either the salary basis or shared direct expense allocation. Such expenses include employee benefits, employment taxes, occupancy costs, technology, equipment, telephone, postage, and office supplies, etc.

NOTE 3 – Fair value measurements, investments and investment income

Fair value measurements are determined based on the assumptions – referred to as inputs – that market participants would use in pricing the asset. The fair value hierarchy distinguishes between market participant assumptions and ICS's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are ICS's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair values of ICS's marketable securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. ICS does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 3 – Fair value measurements, investments and investment income, continued

ICS is the beneficiary of a fund held at Community Foundation for Southern Arizona (CFSA). CFSA does not have variance power over the funds. This beneficial interest in funds held at CFSA are considered Level 3, because ICS owns units of pooled funds held at CFSA, and relies on CFSA to provide the value of those funds. At CFSA, these pooled investments are primarily held in mutual funds and are considered to be valued utilizing Level 1 inputs.

Fair value of assets measured on a recurring basis at June 30, 2020 consisted of the following:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments in mutual funds:			
Domestic equity	\$ 2,064,321	\$ -	\$ 2,064,321
International equity	976,461	-	976,461
Domestic bonds	1,135,370	-	1,135,370
Commodities	185,667	-	185,667
Real estate investment trusts	96,042	-	96,042
Beneficial interest in fund held by others	-	25,103	25,103
	<u>\$ 4,457,861</u>	<u>\$ 25,103</u>	<u>\$ 4,482,964</u>

Fair value of assets measured on a recurring basis at June 30, 2019 consisted of the following:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments in mutual funds:			
Domestic equity	\$ 1,646,239	\$ -	\$ 1,646,239
International equity	799,984	-	799,984
Domestic bonds	858,962	-	858,962
International bonds	59,371	-	59,371
Commodities	166,557	-	166,557
Real estate investment trusts	92,475	-	92,475
Beneficial interest in fund held by others	-	25,661	25,661
	<u>\$ 3,623,588</u>	<u>\$ 25,661</u>	<u>\$ 3,649,249</u>

ICS's activity in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), was as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beneficial interest in fund held by others:		
Fair value at the beginning of the year	\$ 25,661	\$ 26,264
Change in value	453	410
Distributions	<u>(1,011)</u>	<u>(1,013)</u>
Fair value at the end of the year	<u>\$ 25,103</u>	<u>\$ 25,661</u>

The fair value of the contribution receivable – beneficial interest in charitable lead annuity trust is estimated by using an income approach based on calculating the present value of future cash flows, a method that utilizes Level 3 inputs. Fair value of this asset measured on a non-recurring basis at June 30, 2020 and 2019 was \$257,983 and \$342,984, respectively.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 3 – Fair value measurements, investments and investment income, continued

Investment income (losses) consisted of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 111,075	\$ 128,291
Realized gains (losses)	(4,737)	5,365
Unrealized (losses)	(207,935)	(29,170)
Change in value of beneficial interest in fund held by others	453	410
Investment fees	<u>(20,327)</u>	<u>(18,744)</u>
	<u>\$ (121,471)</u>	<u>\$ 86,152</u>

NOTE 4 – Government and foundation grants receivable

Government and foundation grants receivable were as follows at June 30, 2020 and 2019, respectively, with no allowance for uncollectible accounts.

	<u>2020</u>	<u>2019</u>
Government grants receivable	\$ 68,664	\$ 245,717
Foundation grants receivable	<u>35,000</u>	<u>-</u>
	<u>\$ 103,664</u>	<u>\$ 245,717</u>

NOTE 5 – Liquidity and availability

ICS follows their Operating Reserve Policy for managing and monitoring the availability of financial resources required to meet current operating needs. The ICS Finance Committee has established that the goal for reserves should be three to six months of average cash operational expenses. Average operational monthly expenses are defined as 12 months of actual expenses (less depreciation, direct-aid grants, and accrued leave) divided by twelve.

As of June 30, 2020 and 2019, the following financial resources could be made readily available to meet general expenditures, as there are no constraints on these assets which would be expected to limit ICS's ability to respond quickly to changes in market conditions:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,224,855	\$ 510,345
Certificates of deposits held at banks	254,035	150,641
Investments	4,457,861	3,623,588
Government and foundation grants receivable	103,664	245,717
Current portion of contribution receivable - beneficial interest in charitable lead annuity trust	125,815	125,815
Beneficial interest in fund held by others	<u>25,103</u>	<u>25,661</u>
Total financial assets	6,191,333	4,681,767
Less net assets with donor restrictions not available to be used to meet general expenditures within one year:		
Subject to purpose restrictions	(207,347)	(105,438)
Donor-restricted endowments	<u>(3,478,717)</u>	<u>(3,667,192)</u>
	<u>(3,686,064)</u>	<u>(3,772,630)</u>
Financial assets available to meet general expenditures within 1 year of the statement of financial position date	<u>\$ 2,505,269</u>	<u>\$ 909,137</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 6 – In-kind contribution receivable – land lease

ICS leases land from a member church for \$1 per year with a value of \$9,840 per year. The lease, which is dated August 2009, has an initial term of 20 years and is renewable at the option of ICS for an additional 20 years. At the signing of the lease, ICS reported the fair value of the contribution and a corresponding contribution receivable. Fair value was calculated by discounting the estimated annual fair rental value of \$9,840 for twenty years at an estimated risk-free rate of 5%. Each year thereafter, the receivable is reduced by rent expense and is increased by annual discount amortization, which is reported as in-kind contribution revenue in the statement of activities.

In-kind contributions receivable related to the land lease were as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
In-kind contribution receivable	\$ 89,854	\$ 99,694
Less discount to present value at 5%	<u>(18,650)</u>	<u>(22,487)</u>
	71,204	77,207
Less current portion of in-kind contribution receivable	<u>(9,840)</u>	<u>(9,840)</u>
Long-term portion of in-kind contribution receivable	<u>\$ 61,364</u>	<u>\$ 67,367</u>

A schedule of future in-kind rent expense at June 30, 2020 follows:

In-kind rent expense to be recognized		
during the year ending June 30, 2021		\$ 9,840
2022		9,840
2023		9,840
2024		9,840
2025		9,840
Thereafter		<u>40,654</u>
		<u>\$ 89,854</u>

See Notes 15 and 16 for additional information regarding the in-kind contribution for the land lease.

NOTE 7 – Contribution receivable – beneficial interest in charitable lead annuity trust

During the year ended June 30, 2013, a donor established a trust with unrelated parties acting as trustees naming ICS as the lead beneficiary of a charitable lead annuity trust. Under the terms of the split-interest agreement, ICS is to receive \$25,163 quarterly for 10 years, to be added to the ICS endowment. At the end of this period, the trust is to terminate and the remaining trust assets are to be distributed to others. Based on a 5% discount rate, the present value of future benefits expected to be received by ICS was estimated to be \$835,020 at the time of donation, which was reported in endowment contributions with donor restrictions and a contribution receivable from the charitable lead annuity trust.

The contribution receivable – beneficial interest in charitable lead annuity trust consisted of the following at June 30, 2020:

	<u>Current portion</u>	<u>Long-term portion</u>	<u>Total</u>
Future cash flows receivable from charitable lead annuity trust	\$ 125,815	\$ 147,968	\$ 273,783
Less discount to present value at 5%	<u>-</u>	<u>(15,800)</u>	<u>(15,800)</u>
	<u>\$ 125,815</u>	<u>\$ 132,168</u>	<u>\$ 257,983</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 7 – Contribution receivable – beneficial interest in charitable lead annuity trust, continued

The contribution receivable – beneficial interest in charitable lead annuity trust consisted of the following at June 30, 2019:

	<u>Current portion</u>	<u>Long-term portion</u>	<u>Total</u>
Future cash flows receivable from charitable lead annuity trust	\$ 125,815	\$ 248,621	\$ 374,436
Less discount to present value at 5%	-	(31,452)	(31,452)
	<u>\$ 125,815</u>	<u>\$ 217,169</u>	<u>\$ 342,984</u>

NOTE 8 – Property and equipment

Property and equipment at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements:		
Building improvements	\$ 1,774,870	\$ 1,767,587
Land improvements	108,839	108,839
Furniture and equipment	60,788	51,708
Software	33,345	33,345
Vehicles	138,881	138,881
	<u>2,116,723</u>	<u>2,100,360</u>
Less accumulated depreciation	<u>(700,399)</u>	<u>(621,002)</u>
	<u>\$ 1,416,324</u>	<u>\$ 1,479,358</u>

NOTE 9 – Endowments

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, accumulated deficiencies of this nature are reported in net assets with donor restrictions. There were no accumulated deficiencies at either June 30, 2020 or 2019.

Return objectives and risk parameters

ICS has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a net average annual total return, over the long term, equal to the change in the consumer price index plus 5%.

Investment strategies

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

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 9 – Endowments, continued

Spending policies

ICS has a board-approved spending policy that allows the operating fund to receive and recognize investment earnings originating from the endowment fund. As of June 30, 2020, the Board approved spending policy allowed for appropriation equal to 5% of the average value of the endowment over the prior three years.

However, the annual amount available for distribution from endowments with donor-restrictions shall not cause the principal amount of the endowment to fall below the original contributions made to the endowment after adjusting for inflation. As a result, the actual amount available to support operations in any one year may be less than 5%.

Endowment fund net assets

Net assets in the endowment funds consisted of the following at June 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		
	<u>Board-desig- nated quasi endowment</u>	<u>Restricted for time/purpose</u>	<u>Restricted in perpetuity</u>	<u>Total</u>
Beginning balance	\$ 366,872	\$ 701,858	\$ 2,965,334	\$ 4,034,064
Additions	998,975	-	41,651	1,040,626
Interest and dividends	16,803	88,882	-	105,685
Realized (losses)	(1,564)	(3,173)	-	(4,737)
Unrealized (losses)	(81,829)	(126,106)	-	(207,935)
Fees	(3,631)	(16,696)	-	(20,327)
Change in value of beneficial interest in fund held by others	-	453	-	453
Appropriations	-	(173,486)	-	(173,486)
Ending balance	<u>\$ 1,295,626</u>	<u>\$ 471,732</u>	<u>\$ 3,006,985</u>	<u>\$ 4,774,343</u>

Net assets in the endowment funds consisted of the following at June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		
	<u>Board-desig- nated quasi endowment</u>	<u>Restricted for time/purpose</u>	<u>Restricted in perpetuity</u>	<u>Total</u>
Beginning balance	\$ 253,447	\$ 777,621	\$ 2,935,635	\$ 3,966,703
Additions	148,003	-	29,699	177,702
Interest and dividends	8,552	117,587	-	126,139
Realized gains	385	4,980	-	5,365
Unrealized gains (losses)	3,034	(32,204)	-	(29,170)
Fees	(1,224)	(17,520)	-	(18,744)
Change in value of beneficial interest in fund held by others	-	410	-	410
Appropriations	(45,325)	(149,016)	-	(194,341)
Ending balance	<u>\$ 366,872</u>	<u>\$ 701,858</u>	<u>\$ 2,965,334</u>	<u>\$ 4,034,064</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 9 – Endowments, continued

Donor-restricted endowment funds are held in the following financial assets reported on the statements of financial position at June 30, 2020 and 2019:

	2020	2019
Donor-restricted endowment funds:		
Subject to time or purpose restrictions	\$ 471,732	\$ 701,858
Restricted in perpetuity	3,006,985	2,965,334
Total donor-restricted endowments	\$ 3,478,717	\$ 3,667,192
Related financial assets:		
Cash and cash equivalents	\$ 26,355	\$ 38,740
Investments	3,169,276	3,259,807
Contribution receivable - beneficial interest in a charitable lead annuity trust:		
Current portion	125,815	125,815
Long-term portion	132,168	217,169
Total contribution receivable	257,983	342,984
Beneficial interest in fund held by others	25,103	25,661
Total financial assets	\$ 3,478,717	\$ 3,667,192

NOTE 10 – Net assets with board designations

The Board may designate net assets without donor restriction for use in future periods, for specific purposes or projects, or may invest the funds in order to provide for long-term returns to support the operations of the organization, similar to an endowment established by a donor. These designations may be amended or rescinded in the future by approval of the Board of Directors.

Net assets without donor restrictions that have been designated by the Board of Directors to function as an endowment or for a specific purpose consisted of the following at June 30, 2020 and 2019:

	2020	2019
Designated for use in the Workforce Development program	\$ 359,188	\$ -
Board-designated quasi endowment	1,295,626	366,872
	\$ 1,654,814	\$ 366,872

NOTE 11 – Retirement plan

ICS has a SIMPLE IRA plan. To be eligible, employees must receive or be expected to receive at least \$5,000 in compensation annually. The plan benefits are based primarily on years of service and employees' compensation. ICS matches employee contributions up to 3% of annual compensation. Retirement expense for the years ended June 30, 2020 and 2019 was \$31,756 and \$31,289, respectively.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 12 – Net assets with donor restrictions

The ICS and Founders endowments each consists of a corpus that is restricted in perpetuity and earnings which are not restricted as to purpose by the donor. Under MCFA, accumulated earnings on the endowments are reported in net assets with donor restrictions until appropriated by the Board of Directors (see Note 2 – *Endowments*). See Note 9 for details of the restricted portion in perpetuity of the endowments.

Net assets with donor restrictions were restricted for the following purposes or periods at June 30, 2020:

Subject to the passage of time - restricted for future periods	\$	71,829
Subject to purpose restrictions:		
Community health outreach		22,500
Youth activities		1,381
Workforce development		138,330
Building fund		35,136
Single mom scholars		10,000
		207,347
Endowments:		
Subject to appropriation and expenditure - accumulated earnings:		
ICS endowment		467,947
Founders endowment		3,785
		471,732
With donor restrictions perpetual in nature - subject to spending policy		3,006,985
		3,478,717
	\$	3,757,893

Net assets with donor restrictions were restricted for the following purposes or periods at June 30, 2019:

Subject to the passage of time - restricted for future periods	\$	89,832
Subject to purpose restrictions:		
Community health outreach		54,011
Youth activities		1,381
Workforce development		18,280
Single mom scholars		31,766
		105,438
Endowments:		
Subject to appropriation and expenditure - accumulated earnings:		
ICS endowment		697,515
Founders endowment		4,343
		701,858
With donor restrictions perpetual in nature - subject to spending policy		2,965,334
		3,667,192
	\$	3,862,462

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 12 – Net assets with donor restrictions, continued

Releases from net assets with donor restrictions comprised the following for the year ended June 30, 2020:

Subject to the passage of time - time restrictions concluded	\$ 44,771
Purpose restrictions accomplished:	
Contributions :	
Financial assistance	189,680
Food bank	207,676
Workforce development	95,495
Caregiving & senior services	33,140
Community health outreach	191,510
Youth activities	5,300
Single mom scholars	<u>179,072</u>
	901,873
Government Grants:	
Financial assistance	652,045
Food bank	33,600
Caregiving & senior services	85,486
Volunteer services	<u>132,503</u>
	903,634
Endowments -	
Release of appropriated endowment earnings without purpose restrictions	<u>173,486</u>
	<u>\$ 2,023,764</u>

Releases from net assets with donor restrictions comprised the following for the year ended June 30, 2019:

Subject to the passage of time - time restrictions concluded	\$ 59,143
Purpose restrictions accomplished:	
Financial assistance	133,861
Food bank	97,626
Workforce development	88,394
Caregiving & senior services	26,712
Community health outreach	266,731
Youth activities	4,640
Single mom scholars	<u>157,307</u>
	775,271
Government Grants:	
Financial assistance	802,863
Food bank	32,165
Caregiving & senior services	137,809
Volunteer services	125,504
Building expansion	<u>93,170</u>
	1,191,511
Endowments -	
Release of appropriated endowment earnings without purpose restrictions	<u>149,016</u>
	<u>\$ 2,174,941</u>

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 13 – Operating leases

ICS leases office equipment under certain non-cancelable leases that expire through June 2022. Lease expense for the years ended June 30, 2020 and 2019 was \$20,041 and \$19,868, respectively. Future minimum payments required under the leases are as follows:

Year ending June 30, 2021	\$	11,864
2022		11,394
2023		8,310
2024		4,079
		4,079
	\$	35,647

NOTE 14 – Contingencies

As a condition of a matching grant in the amount of \$31,936 to purchase a vehicle received during the year ended June 30, 2013, the Arizona Department of Transportation executed a lien on the vehicle. The lien will remain on the vehicle through its useful life until the remaining asset value is less than \$5,000 or is no longer in service, but in no event less than four years or 100,000 miles. If the vehicle is in whole or in part sold, transferred, leased or abandoned prior to the expiration of the time period, the grant will have to be repaid.

The carrying value of the vehicle, net of accumulated depreciation was \$0 at both June 30, 2020 and 2019, as it had been fully depreciated as of June 30, 2019.

NOTE 15 – In-kind contributions

ICS received in-kind contributions which are reported as follows for the years ended June 30, 2020 and 2019:

	2020	2019
Functional expenses:		
Food boxes	\$ 4,762,137	\$ 3,214,703
Utility assistance	469,241	502,361
Volunteer mileage	128,271	135,230
Mobile meal trays	9,707	11,543
Other client expenses	77,538	94,681
Lease expense	20,774	20,774
Land lease expense, net of change in in-kind contribution receivable	3,837	4,123
Direct donor benefit cost	45,247	56,931
Miscellaneous	5,158	2,321
	5,521,910	4,042,667
Change in donated food box inventory	6,787	(4,476)
	\$ 5,528,697	\$ 4,038,191

ICS provides assistance to clients needing utility assistance by preparing a case for submittal to the appropriate funding entity. ICS interviews the client, determines qualifications, prepares the case and submits the case to the funding entity. Upon approval of a case, the funding entity (usually a government) pays the applicable utility company directly.

INTERFAITH COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2020 AND 2019

NOTE 16 – Related party transactions

ICS also occupies space in a building owned by another member church at no cost per year with a value of \$20,774 per year, provided on a year-to-year basis. See Note 15.

NOTE 17 – Supplemental cash flow information

There was no cash paid for interest or income taxes in 2020 or 2019.

NOTE 18 – Conditional grants, CARES Act funding and refundable advances

Conditional grants are funds provided that require that the grantee use the funds on specific projects or activities, known as barriers, and for which the grantor clearly defines the right to collect unused funds or funds spent in a manner that is not consistent with the terms of the agreement.

In March of 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to confront the expected economic contraction resulting from efforts to minimize the spread of the COVID-19 virus described in Note 20. This law made loans available from the U.S. Small Business Administration (SBA) under the Paycheck Protection Program (PPP). PPP loans are forgivable up to the full amount of the proceeds if various conditions are met, including retention based on full-time equivalents, expenditure for specific types of expenses, and other limitations. Modifying legislation was passed subsequently, and as of the date of report, additional legislation is expected that could affect the amount that could be forgiven and the ultimate terms of repayment.

ICS applied for and received \$322,410 in PPP loan funds through a national bank in April of 2020. In the event that the conditions for forgiveness are not met or legal and legislative changes are made that require the return of conditional grant funds, ICS would be required to make 18 monthly payments of principal and interest at a rate of 1% on the outstanding balance, beginning of November 2020. Because the agreement includes a right of return of funds to the grantor and conditions that represent a measurable barrier to entitlement, the PPP loan has been classified as a conditional grant and the proceeds are included in refundable grant advances on the statement of financial position.

In addition, ICS received a conditional promise to give during the year ended June 30, 2020. The promise to give is conditional upon ICS receiving qualified contributions over a period of time which will be matched by the donor. ICS earned a total of \$163,684 in matching funds during the year ended June 30, 2020. The remaining amount of this promise to give has not been recorded as the remaining conditions have not been met at year end.

NOTE 19 – Bequests

At June 30, 2020, ICS was named the beneficiary of a bequest. This receivable has not been fully recognized in the financial statements because the remaining amounts to be received cannot be reasonably estimated.

NOTE 20 – Subsequent events

In order to prevent the unchecked spread of the COVID-19 virus among staff, ICS's management and board opted to limit access to the ICS offices and to reduce staff in office hours to the minimum required to carry out essential duties in March of 2020. ICS has continued to provide program services to participants using various virtual options and curbside pickup for food. Though it is likely that the economic contraction resulting from the efforts to control the rates of infection will reduce revenue from contributions, special events, and various programs, an estimate of the long-term impact on ICS cannot be made.

Subsequent events have been evaluated through October 2, 2020, which is the date the financial statements were available to be issued.