

**HILL COUNTRY DAILY
BREAD MINISTRIES**

FINANCIAL STATEMENTS

December 31, 2020 and 2019

RWC | Randy Walker & Company
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hill Country Daily Bread Ministries
Boerne, Texas

We have audited the accompanying financial statements of Hill Country Daily Bread Ministries (a non-profit corporation), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities (with comparative totals for 2019), functional expenses (with comparative totals for 2019), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hill Country Daily Bread Ministries as of December 31, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Randy Walker & Co.

San Antonio, Texas
November 19, 2021

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,813,353	\$ 1,912,743
Accounts Receivable	225	225
Inventory	1,010,127	709,020
Prepaid Expenses	-	86,813
Total Current Assets	4,823,705	2,708,801
LONG-TERM ASSETS		
Other Assets	13,211	13,211
Property and Equipment, net	4,930,549	5,094,582
Total Long-Term Assets	4,943,760	5,107,793
TOTAL ASSETS	\$ 9,767,465	\$ 7,816,594
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 71,819	\$ 106,109
Line of Credit	293,085	518,085
Total Current Liabilities	364,904	624,194
TOTAL LIABILITIES	364,904	624,194
NET ASSETS		
Without Donor Restrictions	8,044,281	6,032,457
With Donor Restrictions	1,358,280	1,159,943
TOTAL NET ASSETS	9,402,561	7,192,400
TOTAL LIABILITIES AND NET ASSETS	\$ 9,767,465	\$ 7,816,594

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

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020
(with comparative totals for 2019)

	2020			2019 Total (Restated)
	Without Donor Restrictions	With Donor Restrictions	Total	
<u>OPERATING REVENUE AND SUPPORT</u>				
Non-Cash Donations: Food, Clothing, Household	\$ 6,109,673	\$ -	\$ 6,109,673	\$ 4,320,946
General Contributions	2,096,863	110,422	2,207,285	1,101,202
Grants	695,829	72,500	768,329	491,066
Fundraising (net of direct expenses of \$138,324 and \$99,251, respectively)	288,410	-	288,410	362,242
Capital Campaign Contributions	-	315,000	315,000	313,100
Other Income	662	-	662	5,730
Net Assets Released from Restrictions	299,585	(299,585)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	9,491,022	198,337	9,689,359	6,594,286
<u>OPERATING EXPENSES</u>				
Program	7,161,326	-	7,161,326	5,580,148
General and Administrative	409,159	-	409,159	371,104
Fundraising	175,421	-	175,421	176,444
TOTAL OPERATING EXPENSES	7,745,906	-	7,745,906	6,127,696
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	1,745,116	198,337	1,943,453	466,590
<u>NON-OPERATING ACTIVITY</u>				
PPP Revenue	266,708	-	266,708	-
TOTAL NON-OPERATING ACTIVITY	266,708	-	266,708	-
CHANGE IN NET ASSETS AFTER NON- OPERATING ACTIVITY	2,011,824	198,337	2,210,161	466,590
NET ASSETS, Beginning of Year (Restated)	6,032,457	1,159,943	7,192,400	6,725,810
NET ASSETS, End of Year	\$ 8,044,281	\$ 1,358,280	\$ 9,402,561	\$ 7,192,400

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

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u> (Restated)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets from Operations	\$ 2,210,161	\$ 466,590
Adjustments to Reconcile Net Change to Net Cash Provided by Operations:		
Depreciation	168,162	172,500
Donated Vehicle	-	(7,400)
Non-Cash Inventory Donations (Net of Non-Cash Inventory Disbursements)	(301,107)	(11,938)
(Increase) Decrease in Assets:		
Accounts Receivable	-	(225)
Prepaid Expenses	86,813	(50,454)
(Decrease) Increase in Liabilities:		
Accounts Payable	(34,290)	25,243
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,129,739</u>	<u>594,316</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from Sale of Investments	-	132
Cash Purchases of Property and Equipment	(4,129)	(51,198)
NET CASH USED BY INVESTING ACTIVITIES	<u>(4,129)</u>	<u>(51,066)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal Payments on Line of Credit	(225,000)	(80,000)
NET CASH USED BY FINANCING ACTIVITIES	<u>(225,000)</u>	<u>(80,000)</u>
NET INCREASE IN CASH FLOWS	1,900,610	463,250
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,912,743</u>	<u>1,449,493</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 3,813,353</u>	<u>\$ 1,912,743</u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
Interest Paid	\$ 21,080	\$ 26,495

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

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

The accompanying statements of Hill Country Daily Bread Ministries (the Organization) have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of Activities

Hill Country Daily Bread Ministries is organized as a 501(c)(3) non-profit corporation. Since October 2000, the Organization has served as a unique and effective ministry resource to the Hill Country Christian outreach programs. The mission of the Organization is to gather, store, and distribute food, clothing, furniture, diapers, school supplies and children's books free of charge to the needy through partner church programs. The Organization currently serves over 39 outreach programs, which are mainly associated with local churches.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* – Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, designated.
- *Net Assets With Donor Restrictions* – Net assets subject to donor restrictions that are more restrictive than the Organization's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purposes for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid savings and securities with a maturity of three months or less to be cash equivalents.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and as such qualifies for the maximum charitable contributions deduction by donors. As of December 31, 2020, the tax years that remain subject to examination by taxing authorities begin with 2017.

Contributions

Contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is fulfilled), net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Inventory

Inventory consists primarily of donated food, clothing, and household items. Therefore, these items are stated at fair value at date of donation. At December 31, 2020 and 2019, the value of inventory was \$1,010,127 and \$709,020, respectively.

Property and Equipment

Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The Organization capitalizes items with a cost of over \$2,000. Depreciation on the assets owned by the Organization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Leasehold Improvements	15 years
Equipment	5-7 years
Vehicles	5 years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2021. A lessee will be required to recognize on the statements of financial position the assets and liabilities for leases with lease terms of more than twelve months. Management is currently evaluating the effect this new standard will have on its financial position, results of operations and related disclosures.

Recently Adopted Accounting Pronouncements

In 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective for periods beginning after December 15, 2018. This pronouncement clarifies and improves the scope and the accounting guidance for contributions received and contributions made in order to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted this pronouncement effective January 1, 2019.

In 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, effective for periods beginning after December 15, 2019. This pronouncement improves the effectiveness of fair value measurement disclosures in the notes to the financial statements. The Organization adopted this new pronouncement effective January 1, 2020. The change was applied retrospectively, but there was no effect on beginning net assets as of this date.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This pronouncement provides guidance regarding revenue recognition effective for reporting periods beginning after December 15, 2019. The pronouncement affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services.

The Organization adopted the requirements of the new guidance as of January 1, 2019, utilizing the full retrospective method of transition. Adoption of the new guidance resulted in changes to accounting policies for revenue recognition for fundraising events revenue as detailed below for the year ended December 31, 2019.

The Organization adjusted the 2019 financial statements from the amounts previously reported to adopt the new guidance. The following are the line items from the statement of financial position as of December 31, 2019, that were restated, the adjustment, and the restated amounts:

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Pronouncements (continued)

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Adjusted</u>
Current Liabilities			
Deferred Income	\$ 114,775	\$ (114,775)	\$ -
Net Assets			
Without Donor Restriction	\$ 5,917,682	\$ 114,775	\$ 6,032,457

Following is the line item from the statement of activities for the year ended December 31, 2019, that was restated, the adjustment, and the restatement amount:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Adjusted</u>
Operating Support and Revenue			
Fundraising Events, Net	\$ 331,702	\$ 30,540	\$ 362,242

Following are the line items from the statement of cash flows for the year ended December 31, 2019, that were restated, the adjustments, and the restatement amounts:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Adjusted</u>
Cash Flows			
Change in Net Assets from Operations	\$ 436,050	\$ 30,540	\$ 466,590
Deferred Income	\$ 30,540	\$ (30,540)	\$ -

Revenue - Exchange Transactions

The Organization receives fundraising revenues that include a portion considered to be an exchange transaction. The amount of consideration received from these transactions is variable. Revenue from these transactions is recorded as an increase in net assets without donor restrictions to the extent that the earnings process is complete. Performance obligations are satisfied at a point in time when the the event is held. There were no receivables, contract assets, or contract liabilities related to these exchange transactions at December 31, 2020 and 2019. For the years ended December 30, 2020 and 2019, substantially all fundraising income consisted of contributions (non-exchange) which are recognized as revenue when received and are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 2 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and general and administrative expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll expenses which are allocated on the basis of estimates of time and effort, as well as utilities, depreciation, insurance, and various other expenses which are allocated on the basis of square footage or some other reasonable basis.

NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31:

	2020	2019
Capital Campaign	\$ 1,302,838	\$ 1,104,501
Kingdom Kids	55,442	55,442
Total	\$ 1,358,280	\$ 1,159,943

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Organization maintains all of its cash accounts at one financial institution. The Federal Deposit Insurance Corporation insures cash balances up to \$250,000 per bank. The Organization had uninsured cash balances of \$3,306,766 and \$1,585,315 not including reconciling items, at December 31, 2020 and 2019, respectively.

NOTE 5 – LEASES

The Organization has a lease agreement for office equipment that expires in October 2023. Rental charges under this lease were \$345 per month. Lease expense for the years ended December 31, 2020 and 2019 was \$4,265 and \$4,182, respectively.

Future annual lease payments under the existing lease agreement are as follows:

Year ending December 31,		
2021	\$	4,140
2022		4,140
2023		3,450
Total	\$	11,730

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NOTE 6 – DONATED MATERIALS AND SERVICES

The Organization received \$6,109,673 and \$4,320,946 in food, clothing, and household items from various donors during the years ended December 31, 2020 and 2019, respectively. These donated items are included in non-cash donations in the statement of activities. The Organization disbursed \$5,808,192 and \$4,301,171 in donated food, clothing, and household items to various ministries during the years ended December 31, 2020 and 2019, respectively. These disbursements are included in non-cash disbursements in the statement of functional expenses. In addition, a number of volunteers donated approximately 28,616 and 36,935 hours to the Organization's program services during the years ended December 31, 2020 and 2019, respectively; however, these donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services according to generally accepted accounting principles.

NOTE 7 – PROPERTY AND EQUIPMENT

At December 31, the cost and accumulated depreciation of property and equipment were as follows:

	2020	2019
Land	\$ 614,906	\$ 614,906
Building	4,492,946	4,492,946
Equipment	236,778	232,649
Vehicles	164,968	164,968
Software	3,250	3,250
Construction In Progress	302,703	302,703
Less: Accumulated Depreciation	(885,002)	(716,840)
Total	\$ 4,930,549	\$ 5,094,582

Depreciation expense was \$168,162 and \$172,500 for the years ended December 31, 2020 and 2019, respectively.

NOTE 8 – LINE OF CREDIT

On March 14, 2014, the Organization entered into a revolving line of credit agreement with a local institution for a maximum amount of \$4,400,000 for construction costs related to the new facility. The line of credit is collateralized by cash and future cash receipts, has a fixed rate of 3.5%, and matures on July 14, 2021. The outstanding balance for the line of credit as of December 31, 2020 and 2019 was \$293,085 and \$518,085, respectively.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization adopted the provisions of ASC 820, “*Fair Value Measurements and Disclosures*” (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect the Organization’s financial position or results of operations.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

The Organization’s current assets and liabilities as presented in the statements of financial position are Level 1. The Organization has no Level 2 or Level 3 assets or liabilities. The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

NOTE 10 – SUBSEQUENT EVENTS

Due to the ongoing COVID-19 pandemic, the Organization continues to evaluate current economic conditions and the impact on the Organization’s operations for the year ending December 31, 2021, as the long-term effects of the pandemic are uncertain.

The Organization has evaluated subsequent events through November 19, 2021, the date the financial statements were available to be issued.

NOTE 11 – PAYCHECK PROTECTION PROGRAM

During the year ended December 31, 2020, the Organization received a Paycheck Protection Program (PPP) loan of \$266,708 from the Small Business Administration as part of the CARES Act passed during the year to assist small businesses and non-profits affected by measures instituted in response to the COVID-19 pandemic. The amount was expended according to the time and purpose restrictions defined by the PPP. The Organization applied for forgiveness of the PPP loan in October 2020 and was approved in November 2020. Therefore, the loan was recognized as revenue in the statement of activities.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 12 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of donor-stipulated restrictions.

	2020	2019
Cash and Cash Equivalents	\$ 3,813,353	\$ 1,912,743
Accounts Receivable	225	225
Total Financial Assets	3,813,578	1,912,968
Donor Restrictions	(1,358,280)	(1,159,943)
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ 2,455,298	\$ 753,025

The Organization’s primary sources of cash flows during the year are contributions, grants and fundraising. These revenue sources provide a consistent inflow of cash throughout the year to meet normal operating expenses.