

**EL CENTRO, INC.**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2020  
with  
Independent Auditors' Report**

**EL CENTRO, INC.**

FINANCIAL STATEMENTS

June 30, 2020

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# Keller & Owens, LLC

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
**El Centro, Inc.**

We have audited the accompanying financial statements of **El Centro, Inc.** (the "Organization") which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' 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 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 Organization'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 Organization'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**

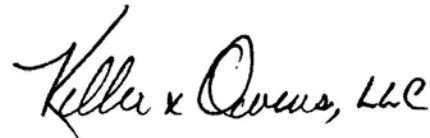
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **El Centro, Inc.** as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2020, **El Centro, Inc.** adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities (Subtopic 825-10)*. Our opinion is not modified with respect to these matters.

## **Report on Summarized Comparative Information**

We have previously audited the Organization’s 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated January 23, 2020. In our opinion, the summarized comparative financial information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kella x Owens, LLC". The signature is written in a cursive, flowing style.

Overland Park, Kansas  
December 2, 2020

## EL CENTRO, INC.

### STATEMENT OF FINANCIAL POSITION

June 30, 2020

(With comparative totals at June 30, 2019)

#### ASSETS

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,453,563	\$ 619,883
Certificates of Deposit	260,274	256,387
Accounts Receivable, no allowance for doubtful accounts	39,269	11,730
Contributions Receivable, net - due in less than one year	245,857	92,400
Mortgage Loans Receivable, net	183,302	209,458
Interest in Assets Held by Others	6,238,077	6,195,303
Prepaid Expenses, Deposits, and Other Assets	8,321	7,518
Property and Equipment, net	<u>1,709,997</u>	<u>1,666,611</u>
 Total Assets	 <u>\$ 10,138,660</u>	 <u>\$ 9,059,290</u>

#### LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 165,978	\$ 196,016
Refundable advances and deferred revenue	297,425	333,879
Paycheck Protection Program loan	<u>317,600</u>	<u>-</u>
 Total Liabilities	 781,003	 529,895
 Net Assets:		
Without donor restrictions:		
Board-designated for operating endowment	6,238,077	6,195,303
Undesignated	<u>2,082,547</u>	<u>2,050,568</u>
Total without donor restrictions	8,320,624	8,245,871
With donor restrictions	<u>1,037,033</u>	<u>283,524</u>
 Total Net Assets	 <u>9,357,657</u>	 <u>8,529,395</u>
 Total Liabilities and Net Assets	 <u>\$ 10,138,660</u>	 <u>\$ 9,059,290</u>

*See accompanying notes*

# EL CENTRO, INC.

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

(With comparative totals for the year ended June 30, 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and Support:				
Contributions	\$ 1,598,479	961,208	\$ 2,559,687	1,332,294
Federal, state, and local government grants	239,375	-	239,375	177,603
Preschool tuition	349,467	-	349,467	494,064
Rental income	107,870	-	107,870	90,223
Investment return	242,774	-	242,774	391,187
Mortgage interest income	19,924	-	19,924	21,698
Other	52,123	-	52,123	21,945
Net assets released from restrictions	207,699	(207,699)	-	-
 Total Revenue and Support	 2,817,711	 753,509	 3,571,220	 2,529,014
Expenses:				
Program services	2,324,865	-	2,324,865	2,091,542
Management and general	256,867	-	256,867	208,138
Fundraising	161,226	-	161,226	140,437
 Total Expenses	 2,742,958	 -	 2,742,958	 2,440,117
 Change in Net Assets	 74,753	 753,509	 828,262	 88,897
Net Assets, Beginning of Year	8,245,871	283,524	8,529,395	8,440,498
Net Assets, End of Year	\$ 8,320,624	\$ 1,037,033	\$ 9,357,657	\$ 8,529,395

*See accompanying notes*

## EL CENTRO, INC.

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

(With comparative totals for the year ended June 30, 2019)

	2020				2019 Total
	Program Services	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,239,777	\$ 136,106	\$ 100,683	\$ 1,476,566	\$ 1,264,322
Employee benefits	246,797	27,668	20,444	294,909	248,677
Professional fees	63,259	41,542	24,980	129,781	194,282
Rent	10,860	-	-	10,860	13,434
Utilities	98,800	6,202	1,938	106,940	117,774
Grants to individuals	160,919	-	100	161,019	81,684
Depreciation and amortization	109,418	13,026	7,816	130,260	106,184
Maintenance	77,139	2,952	697	80,788	78,724
Supplies	105,726	180	-	105,906	65,149
Food service	32,789	-	-	32,789	43,063
Staff development	32,945	1,734	-	34,679	39,506
Travel	25,120	1,288	-	26,408	42,583
Insurance	23,292	918	226	24,436	23,834
Office supplies	15,452	4,008	183	19,643	13,240
Postage	1,436	159	338	1,933	1,752
Printing and publication	18,521	2,701	1,412	22,634	17,813
Real estate and property taxes	18,155	1,545	380	20,080	22,902
Miscellaneous	44,460	16,838	2,029	63,327	65,194
	<u>\$ 2,324,865</u>	<u>\$ 256,867</u>	<u>\$ 161,226</u>	<u>\$ 2,742,958</u>	<u>\$ 2,440,117</u>
Total Expenses	<u>\$ 2,324,865</u>	<u>\$ 256,867</u>	<u>\$ 161,226</u>	<u>\$ 2,742,958</u>	<u>\$ 2,440,117</u>

*See accompanying notes*

## EL CENTRO, INC.

### STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

(With comparative totals for the year ended June 30, 2019)

	2020	2019
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 828,262	\$ 88,897
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and amortization	130,260	106,184
Provision for loan losses	(333)	(268)
Loss on uncollectible promises to give	-	150
Net realized and unrealized gains on interest in assets held by others	(116,446)	(256,679)
Loss on disposal of property and equipment	-	13,500
(Increase) Decrease in:		
Accounts receivable	(27,539)	1,170
Contributions receivable	(153,457)	94,927
Mortgage loans receivable	26,489	17,232
Prepaid expenses, deposits and other assets	(803)	(28)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(30,038)	20,788
Refundable advances and deferred revenue	(36,454)	13,120
Net Cash Provided by Operating Activities	619,941	98,993
Cash Flows From Investing Activities:		
Purchases of certificates of deposit	(3,887)	(30,136)
Proceeds from redemption of certificates of deposit	-	26,625
Purchase of interest in assets held by others	(126,328)	(134,508)
Proceeds from the withdrawal of interest in assets held by others	200,000	283,130
Purchases of property and equipment	(173,646)	(208,310)
Net Cash Used by Investing Activities	(103,861)	(63,199)
Cash Flows From Financing Activities:		
Proceeds from Paycheck Protection Program loan	317,600	-
Net Cash Provided by Financing Activities	317,600	-
Change in Cash and Cash Equivalents	833,680	35,794
Cash and Cash Equivalents, Beginning of Year	619,883	584,089
Cash and Cash Equivalents, End of Year	\$ 1,453,563	\$ 619,883

*See accompanying notes*



# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization - El Centro, Inc.** (the “Organization”) is a not-for-profit organization whose mission is strengthening communities and improving lives of Latinos and others through educational, social, and economic opportunities. The Organization’s revenues and other support are derived principally from contributions, preschool tuition, and federal and state grants. Its activities are conducted principally in Wyandotte County and Johnson County, Kansas. The Organization’s operations consist of the following program services: education, community health, economic empowerment, and advocacy.

**Advertising Costs** – The Organization uses advertising to promote its programs among the community it serves. The costs of advertising are expensed as incurred. Advertising expense for the years ended June 30, 2020 and 2019 was \$35,070 and \$36,895, respectively.

**Basis of Accounting** – The Organization’s policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, cash and cash equivalents are considered to be all highly liquid investments purchased with original maturity dates of less than three months.

**Certificates of Deposit** – Certificates of deposit of \$260,274 were held by the Organization at June 30, 2020 and are measured at carrying value, i.e. cost if purchased and fair value at date of contribution if donated, in the statement of financial position. Their original maturities range between 6 and 18 months, and they bear interest at rates ranging between 0.29% and 1.98%.

**Comparative Financial Information** – The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. general accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019 from which the summarized information was derived.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Concentrations of Credit Risk** - The Organization maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times. The Organization has not experienced any losses in these accounts in the past, and management believes the Organization is not exposed to significant credit risks as it periodically evaluates the strength of the financial institutions in which it deposits funds. At June 30, 2020, the Organization had approximately \$965,969 in deposits in excess of FDIC-insured limits. In addition, the Organization had \$302,350 on deposit with the Archdiocese of Kansas City in Kansas that is uninsured at June 30, 2020.

**Contributions Receivable** – Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are reported at a discounted present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. Management provides for estimated uncollectible accounts through a charge to the statement of activities and a credit to a valuation allowance based on its assessment of the current status of individual accounts. The allowance for uncollectible promises to give is based on management's assessment of the collectibility of specific donors' contributions receivable and the aging of contributions receivable. All pledges or portions thereof, deemed to be uncollectible, are written off to the allowance for uncollectible promises to give. There was no such allowance at June 30, 2020 or 2019.

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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, expenses, gains, losses, and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimates.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Functional Expense Allocation** – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Utilities, maintenance, real estate taxes, insurance, property taxes, and depreciation and amortization are allocated on the basis of square footage. Staff development and travel expenses are primarily direct expenses and charged to the function the particular staff person works in. Office supplies and other office expenses such as postage, equipment rental, internet, phone, etc., are allocated based on full-time equivalents. Salaries, wages and employee benefits are allocated on the basis of time and effort.

**Income Taxes** – The Organization is exempt from Federal income taxes, except on unrelated income, under Section 501(c)(3) of the Internal Revenue Code (“the Code”). Contributions to the Organization are deductible within the limitations of the Code. The Organization has been classified as a publicly-supported entity, which is not a private foundation under Section 509(a) of the Code.

The Organization’s policy with regard to FASB ASC 740-10 is to record a liability for any tax position that is beneficial to the Organization, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2020 and, accordingly, no liability has been accrued.

**Interest in Assets Held by Others** – The investment of a beneficial interest in a community foundation is reported in the statement of financial position at its net asset value as a practical expedient for measuring fair value. Net investment return is reported in the statement of activities and consists of unrealized gains and losses. Investment returns, including gains, interest and dividends less external investment expenses that are restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Mortgage Loans Receivable and Allowance for Loan Losses** – The Organization has mortgage loans receivable stated at outstanding principal balances net of charge-offs and the allowance for loan losses. The loans bear interest at rates between 7.000% and 8.625%, due from individual homeowners. Required monthly payments of principal and interest approximate \$4,967 in the aggregate. The notes are secured by the respective homes and are due over periods of up to 30 years, with final payment due dates ranging from 2022 to 2037. Interest income on loans is calculated using the simple interest method on the daily balances of the principal amounts outstanding.

The Organization provides an allowance for uncollectible mortgage loans receivable, which is based upon a review of outstanding receivables, historical collection information, economic conditions and estimated fair value of the homes. The Organization monitors credit worthiness based on timeliness of payments according to the contractual terms. Loans past due for more than 15 days are considered delinquent. Interest continues to accrue on delinquent accounts until the account is written off. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the homeowner. When a loan is one month overdue, a specific allowance equivalent to 2% of the outstanding balance is made. When a loan is two or more months overdue, a specific allowance equivalent to 5% of the outstanding balance is made. The minimum allowance for loan loss balance is 1% as a general provision.

**Net Assets** - Net assets, revenue, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor or certain grantor restrictions. They also include any designations by the governing board.

*Net assets with donor restrictions* - Net assets subject to donor- or certain grantor-imposed restrictions. 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization has none of this type for the year ended June 30, 2020. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property and Equipment** - Property and equipment are stated at cost less accumulated depreciation. Expenditures for property and equipment over \$1,000 that meet the definition of a capital asset are capitalized and depreciated using the straight-line method over the estimated useful life of the asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	5 - 39 years
Equipment, furniture, and vehicles	3 - 10 years
Software	3 years

**Recent Accounting Pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, which supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Organization has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly, utilizing the modified retrospective method of transition, with no cumulative-effect adjustment to net assets.

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 and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there was no effect on net assets in connection with the Organization's implementation of ASU 2018-08.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Recent Accounting Pronouncements (continued)** – As of January 1, 2019, the Organization adopted FASB ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Under ASU 2016-01, not-for-profit entities that are not colleges, universities, voluntary health and welfare entities, or health care entities should report other investments using one of the following measures: (a) fair value or (b) the lower of cost or fair value. If other investments are not equity securities and are carried at the lower of cost or fair value, declines in the value of those investments should be recognized if their aggregate fair value is less than their carrying amount. Recoveries of aggregate fair value in subsequent periods should be recorded in those periods subject only to the limitation that the carrying amount does not exceed the original cost. The Organization's certificates of deposit are defined by GAAP as other investments. Prior to adoption, the certificates of deposit were reflected at cost. Upon electing to report certificates of deposit at the lower of cost or fair value at the adoption date of January 1, 2019, no cumulative-effect adjustment was necessary to be reflected on the 2019 statement of financial position.

**Revenue Recognition** – The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met; funds collected prior to meeting such conditions are recorded as refundable advances in the statement of financial position. Government grant revenues are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. The Organization adopted the simultaneous release option for donor-restricted conditional grants that are recognized and used within the same reporting period; therefore, these amounts are reported as without donor restriction.

The Organization collects tuition and fees via its preschool program. Tuition is generally due at the beginning of each school session and is recognized on a pro-rated basis over the term of the related school sessions. Unrecognized or remaining unamortized tuition is recorded as deferred revenue on the statement of financial position.

**Subsequent Events** - Management has evaluated events and transactions that have occurred since June 30, 2020 and reflected their effects, if any, in these financial statements through December 2, 2020, the date the financial statements were available to be issued.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,453,563	\$ 619,883
Certificates of deposit	260,274	256,387
Accounts and contributions receivable	285,126	104,130
Interest in assets held by others	<u>6,238,077</u>	<u>6,195,303</u>
Total financial assets at year-end	8,237,040	7,175,703
Less: board designations	(6,238,077)	(6,195,303)
Less: restricted by donors for future capital projects	<u>(300,825)</u>	<u>(34,490)</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,698,138</u>	<u>\$ 945,910</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by sources with donor restrictions. Donor restricted net assets that are available for normal operations are deemed available to meet general expenditures.

### 3. CONDITIONAL PROMISES TO GIVE

Collected and unspent (refundable advances)	\$ 277,505	\$ 321,837
Amounts yet to be collected	<u>217,056</u>	<u>419,996</u>
Total Conditional Promises to Give	<u>\$ 494,561</u>	<u>\$ 741,833</u>

## EL CENTRO, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2020

#### 4. MORTGAGE LOANS RECEIVABLE

The following is a summary of the Organization's allowance for loan losses and loan portfolio at June 30, consisting of residential real estate mortgages.

	<u>2020</u>	<u>2019</u>
Performing	\$ 180,280	\$ 205,055
Nonperforming and on non-accrual	<u>5,079</u>	<u>6,793</u>
Total Mortgage Loans Receivable	185,359	211,848
Allowance for loan losses, beginning of year	2,390	2,658
Provision for loan losses	<u>(333)</u>	<u>(268)</u>
Allowance for loan losses, end of year	<u>2,057</u>	<u>2,390</u>
Mortgage Loans Receivable, net	<u>\$ 183,302</u>	<u>\$ 209,458</u>

#### 5. FAIR VALUE MEASUREMENTS

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three-tier hierarchy of inputs is summarized in the three broad levels below:

- Level 1 - inputs are unadjusted quoted market prices in active independent markets for identical assets and liabilities;
- Level 2 - inputs are directly or indirectly observable estimates from quotes for similar but not identical assets and liabilities, market trades for identical assets not actively traded, or other external independent means;
- Level 3 - inputs are unobservable and reflect assumptions on the part of the reporting entity.

The Organization's policy is to recognize transfers between Levels 1 and 2, and into and out of Level 3 at the end of the reporting period. For the years ended June 30, 2020 and 2019, there were no transfers between Levels 1 and 2, or into and out of Level 3.



# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 5. FAIR VALUE MEASUREMENTS (continued)

The following table sets forth information about the levels within the fair value hierarchy at which the Organization's financial assets and liabilities are measured on a recurring basis at June 30:

	<u>2020</u>	<u>2019</u>
Interest in Assets Held by Others:		
Level 1	\$ -	\$ -
Level 2	6,238,077	6,195,303
Level 3	<u>-</u>	<u>-</u>
 Total	 <u>\$ 6,238,077</u>	 <u>\$ 6,195,303</u>

The following is a description of the valuation methodology used for fair value measurements. There have been no changes in the methodology used at June 30, 2020 or 2019.

*Interest in assets held by others* – Net asset value is provided by the community foundation, taking into account the Organization's proportionate net asset share in investment pools. The value of the pools is derived from the fair value of investments within those pools, which are valued using a combination of various methodologies depending upon the type of investments within the pool. See Note 6 for a description of the nature, characteristics, and risk of the various classes of investments within each pool. As allowed by FASB ASC 820-10-35-54B, the entire interest is classified within Level 2 of the fair value hierarchy as the Organization has the ability to immediately redeem its investment in the beneficial interest in assets held by others in the near term, as any requests for withdrawals could only take up to fourteen days to process.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 6. INTEREST IN ASSETS HELD BY OTHERS

The beneficial interest in a community foundation consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Money Market Pool	\$ 13,831	\$ 13,295
Short-Term Fixed Income Pool	964,527	221,895
Intermediate-Term Fixed Income Pool	615,282	655,796
Equity Pool – Domestic	3,373,646	3,817,160
Equity Pool - International	<u>1,270,791</u>	<u>1,487,157</u>
Total Interest in Assets Held by Others	<u>\$ 6,238,077</u>	<u>\$ 6,195,303</u>

Investment return for the years ended June 30 is summarized as follows:

Interest and dividends	\$ 143,439	\$ 151,633
Net realized gains	200,423	157,322
Net unrealized (loss)/gain	(83,977)	99,357
Less: Investment fees	<u>(17,111)</u>	<u>(17,125)</u>
Total Investment Return	<u>\$ 242,774</u>	<u>\$ 391,187</u>

Below is a description of the nature, characteristics, and risk of the various classes of investments indicated above:

*Money Market Pool* – The purpose of the Money Market Pool is to provide liquidity for participating charitable funds and organizations in funding grant-making and payment of fees and administrative costs while providing desired principal stability. The long-term investment objective of the Money Market Pool is to seek a competitive market return to preserve and grow the portfolio, provide cash flows to meet charitable needs now and those in the future. The performance objective of the Money Market Pool is to meet or exceed the performance of the 90-Day Treasury Bill, a truly “liquid” money market benchmark. As such, the Money Market Pool is highly liquid, which enables donors to access funds for grants in a timely manner. The Money Market Pool invests primarily in bank deposits and high-quality institutional money market funds. The money market fund's holdings include U.S. dollar denominated money market securities of domestic and foreign issuers rated in the highest category by at least two nationally recognized rating services, U.S. Government securities, and repurchase agreements.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 6. INTEREST IN ASSETS HELD BY OTHERS (continued)

*Short-Term Fixed Income Pool* – The purpose of the Short-Term Fixed Income Pool is to provide capital preservation and current income to help meet spending requirements of donor portfolios. The Short-Term Fixed Income Pool will utilize a passive, cost effective approach with a secondary objective to provide broad exposure to U.S. income markets. The Short-Term Fixed Income Pool is diversified across U.S. Treasury notes and bonds, corporate bonds, bank loans, mortgage-backed securities, and U.S. Treasury Inflation-Protected Securities. The Short-Term Fixed Income Pool will have a lower average effective duration than broad fixed income market benchmarks such as the Barclays U.S. Aggregate Bond Index, hence limiting overall interest rate risk.

*Intermediate-Term Fixed Income Pool* – The purpose of the Intermediate-Term Fixed Income Pool is to provide capital preservation and current income to help meet spending requirements of donor portfolios. The Intermediate-Term Fixed Income Pool will utilize a passive, cost effective approach with a secondary objective to provide broad exposure to U.S. income markets. The Intermediate-Term Fixed Income Pool is diversified across U.S. Treasury notes and bonds, corporate bonds, bank loans, mortgage-backed securities, and U.S. Treasury Inflation-Protected Securities. The average effective duration and interest rate risk of the Intermediate-Term Fixed Income Pool will be commensurate with broad fixed income benchmarks such as the Barclays U.S. Aggregate Bond Index.

*Equity Pool* – The long-term investment objective of the Equity Pool is to obtain broad equity market exposure utilizing a passive, cost effective approach that is diversified across market capitalizations and regions. A secondary objective is to provide cash flows to fund distributions and to preserve the purchasing power of the funds to meet charitable needs now and in the future. The Equity Pool has been divided into Domestic and International Pools.

If the Organization were to redeem its beneficial interest in the community foundation, the community foundation would liquidate the pooled funds at the nearest month-end, wait a couple of days to ensure all earnings from the pools have been applied and credited, and disburse the entirety of the funds shortly thereafter.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 7. PROPERTY AND EQUIPMENT

	<u>2020</u>	<u>2019</u>
Property and equipment includes the following:		
Buildings and improvements	\$ 2,720,431	\$ 2,619,175
Equipment, furniture, and vehicles	359,354	326,331
Software	<u>13,688</u>	<u>10,973</u>
	3,093,473	2,956,479
Less accumulated depreciation and amortization	<u>1,383,476</u>	<u>1,289,868</u>
Total Property and Equipment, net	<u>\$ 1,709,997</u>	<u>\$ 1,666,611</u>

Depreciation and amortization expense totaled \$130,260 and \$106,184 for the years ended June 30, 2020 and 2019, respectively. Included in equipment, furniture, and vehicles are costs related to two capital leases involving office equipment costing \$76,109. At June 30, 2020 and 2019, accumulated depreciation on the underlying equipment amounted to \$76,109. Related depreciation expense amounted to \$-0- for the years ended June 30, 2020 and 2019.

### 8. PAYCHECK PROTECTION PROGRAM

In April, 2020, the Organization was approved for a \$317,600 loan from Security Bank of Kansas City under the Payment Protection Program (“PPP”). The loan has an interest rate of 1.00% and a maturity date of April, 2022, with monthly principal and interest payments beginning in October 2020. If the Organization spends the loan funds on certain qualified expenditures as specified under the rules and regulations referenced in the loan agreement, all or a portion of the PPP loan funds will be forgiven and be treated as a contribution by the Organization. Forgiveness is not guaranteed and conditioned on U.S. Small Business Administration (“SBA”) approval and SBA reimbursement to the Organization’s financial institution. Management expects all principal and interest to be forgiven. Upon any forgiveness of the loan, the Organization will record either a gain on extinguishment of debt in accordance with FASB ASC 470 or contribution revenue in accordance with FASB ASC 958-605. The PPP Loan program requirements and forgiveness procedures continue to evolve, and payment requirements may be delayed.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30 are available for the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Academy for Children	\$ 451,602	\$ 120,799
Promotora program	8,450	51,365
AFC building and equipment upgrades	106,040	27,219
Emergency and utilities assistance	103,889	15,792
Health Navigation program	74,361	4,342
Community organizing	9,993	12,694
Financial literacy	35,845	13,030
Family support services	22,068	28,912
Facility improvements	194,785	7,271
Latino Arts Festival	-	2,100
Subject to time restrictions	<u>30,000</u>	<u>-</u>
Total Net Assets with Donor Restrictions	<u>\$ 1,037,033</u>	<u>\$ 283,524</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions during the years ended June 30 were for the following:

Subject to expenditure for specified purpose:		
Academy for Children	\$ 75,914	\$ 38,311
Promotora program	42,916	78,127
AFC building and equipment upgrades	20,218	85,008
Emergency and utilities assistance	15,146	9,855
Health Navigation program	1,230	-
Community organizing	8,894	3,659
Financial literacy	5,099	6,756
Family support services	28,912	26,400
Facility improvements	7,270	114,429
Latinos Arts Festival	2,100	-
Expiration of time restrictions	<u>-</u>	<u>250</u>
Total Net Assets Released From Restrictions	<u>\$ 207,699</u>	<u>\$ 362,795</u>

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 10. ENDOWMENT

The Organization has a board-designated endowment fund which is invested at a community foundation, known as the El Centro, Inc. Endowment Fund (“the Fund”). The Organization retains a beneficial interest in these assets.

Kansas adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) in 2008. The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. At June 30, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (1) the original value of initial and subsequent gifts donated to the endowment and (2) accumulations to endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the various funds
- The purposes of the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

The following is a summary of the Organization’s endowment net asset composition by type of fund as of June 30:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 6,238,077	\$ -	\$6,238,077
Total Endowment Net Assets	\$ 6,238,077	\$ -	\$6,238,077
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 6,195,303	\$ -	\$6,195,303
Total Endowment Net Assets	\$ 6,195,303	\$ -	\$6,195,303

## EL CENTRO, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2020

#### 10. ENDOWMENT (continued)

##### Changes in Endowment Net Assets For the Year Ended June 30, 2020.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$6,195,303	\$ -	\$6,195,303
Investment return, net	242,774	-	242,774
Transfers to remove board-designated endowment funds	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Net assets, end of year	<u>\$6,238,077</u>	<u>\$ -</u>	<u>\$6,238,077</u>

##### Changes in Endowment Net Assets For the Year Ended June 30, 2019.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$6,087,246	\$ -	\$6,087,246
Investment return, net	391,187	-	391,187
Transfers to remove board-designated endowment funds	<u>(283,130)</u>	<u>-</u>	<u>(283,130)</u>
Net assets, end of year	<u>\$6,195,303</u>	<u>\$ -</u>	<u>\$6,195,303</u>

*Return Objectives and Risk Parameters* – The Organization has adopted endowment investment and spending policies with the assistance of the community foundation that attempt to provide a predictable stream of funding to programs supported by its endowment while ensuring that the purchasing power of the endowment assets do not decline over time.

*Strategies Employed for Achieving Objectives* – To satisfy its long-term rate-of-return objectives, the Organization 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).

*Spending Policy and How the Investment Objectives Relate to Spending Policy* – The Organization follows its investment policy, which allows for annual distributions of between 2.5% and 5% computed using the balance as of the end of the prior fiscal year. Absent any donor restrictions, board-designated funds may be transferred to or from the Organization at any time.

*Appropriation of Endowment Assets for Next Fiscal Year* – For the 2021 fiscal year, the Organization has not appropriated any of its endowment assets.

# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 11. RETIREMENT PLAN

The Organization has a 403(b) program for substantially all of its employees. The Organization makes discretionary contributions equal to 2% of eligible compensation and also matches 100% of the employees' contributions up to 1% of eligible compensation. Retirement plan expense was \$50,962 and \$37,923 in 2020 and 2019, respectively.

### 12. LEASE COMMITMENTS

**As Lessee** – In September 2017, the Organization entered into an operating lease for office equipment commencing October 2017 and expiring September 2022. Rental payments associated with the operating lease are charged to expense when paid. Rent expense associated with this lease was \$10,869 for the year ended June 30, 2020.

Minimum future lease payments under the non-cancelable operating leases are as follows:

<u>Fiscal Year Ending June 30:</u>	
2021	\$ 9,408
2022	9,408
2023	<u>2,352</u>
Total	<u>\$ 21,168</u>

**As Lessor** – The Organization rents commercial and office space to a variety of businesses at monthly rates from \$25 to \$4,078 for periods ending through June 30, 2021. The following is a schedule of future minimum rentals under non-cancelable operating leases.

<u>Year Ending June 30</u>	
2021	<u>\$ 12,250</u>

The rental space is carried at a cost of approximately \$619,540 less accumulated depreciation of \$274,891 at June 30, 2020.



# EL CENTRO, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### 13. RISKS AND UNCERTAINTIES

The COVID-19 outbreak is causing serious health and financial risks globally. In addition, this crisis has the potential to negatively affect the Organization by reducing investment values, reducing the ability to access capital, causing event cancellations, reducing customer traffic, reducing contributions due to financial uncertainties, reducing investment income, reducing collectibility of receivables, etc. While management is considering the current and future effects of the pandemic on the Organization, an estimate of any negative impacts and the means of mitigation are not known at this time.

### 14. NEW ACCOUNTING PRONOUNCEMENTS

#### *ASU 2016-02, Leases*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are to be applied using a modified retrospective approach.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the effective date for certain entities to fiscal years beginning after December 15, 2021. Early application continues to be allowed.

#### *ASU 2020-07, Not-for-Profit Entities*

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services. The amendments in this ASU are to be applied on a retrospective basis. The amendments should be applied for fiscal years beginning after June 15, 2021. Early adoption is permitted.

The Organization is evaluating the effect that these standards will have on its financial statements and related disclosures.

## **EL CENTRO, INC.**

### NOTES TO FINANCIAL STATEMENTS

June 30, 2020

#### **15. SUBSEQUENT EVENTS**

In August 2020, the Organization expended \$51,950 to install a new HVAC control system at its main office.

On September 18, 2020, the Organization was awarded a three-year grant by the U.S. Environmental Protection Agency, effective for the period between December 2019 and December 2022. The grant's purpose is to provide training to develop a certified workforce for remediation for brownfields properties, assessment, cleanup, or site preparation.

In October 2020, the Organization entered into a bargain purchase agreement to purchase property in Olathe, Kansas for \$772,000.

On November 17, 2020, the Organization was notified that all principal and interest in relation to its PPP loan described in Note 8 was forgiven.