

THE FATHER MCKENNA CENTER, INC.

FINANCIAL STATEMENTS

September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Father McKenna Center, Inc.
Washington, D.C.

We have audited the accompanying financial statements of The Father McKenna Center, Inc., which comprise the statement of financial position as of September 30, 2018, 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.

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 The Father McKenna Center, Inc. as of September 30, 2018, 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.

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THE FATHER MCKENNA CENTER, INC.
STATEMENT OF FINANCIAL POSITION
September 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 1,382,277
Certificates of deposit	834,933
Promises to give - net	1,478,474
Prepaid expenses	17,724
Employee advances	13,495
Accrued interest	8,092

Total current assets 3,734,995

OTHER ASSETS

Promises to give, long-term - net	746,520
Property and equipment - net	295,063

Total other assets 1,041,583

Total assets

\$ 4,776,578

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 10,237
Accrued payroll and vacation	26,000
Accrued expenses	1,061

Total liabilities 37,298

NET ASSETS

Undesignated	1,474,598
Board designated - capital campaign	500,000

Total unrestricted 1,974,598

Temporarily restricted 2,764,682

Total net assets 4,739,280

Total liabilities and net assets

\$ 4,776,578

See accompanying notes.

THE FATHER MCKENNA CENTER, INC.
STATEMENT OF ACTIVITIES
Year ended September 30, 2018

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions			
Organizations	\$ 87,564	\$ 62,000	\$ 149,564
Individuals	1,385,083	1,327,573	2,712,656
Foundations	151,478	556,500	707,978
Government	2,219	2,220	4,439
Donated food and clothing	255,669	-	255,669
Donated facilities	348,768	-	348,768
Donated services	55,000	-	55,000
Net assets released from restrictions	53,949	(53,949)	-
Total support	2,339,730	1,894,344	4,234,074
Other revenue	4,353	-	4,353
Interest	14,596	-	14,596
Total revenue	18,949	-	18,949
Total support and revenue	2,358,679	1,894,344	4,253,023
EXPENSES			
Program services			
Day Shelter	739,108	-	739,108
Food Pantry	194,431	-	194,431
Hypothermia	101,244	-	101,244
Other	53,301	-	53,301
Total program services	1,088,084	-	1,088,084
Supporting activities			
Management and general	168,756	-	168,756
Fundraising - general	174,357	-	174,357
Fundraising - capital campaign	137,655	-	137,655
Total expenses	1,568,852	-	1,568,852
Allowance for uncollectible promises to give	53,325	-	53,325
Change in net assets	736,502	1,894,344	2,630,846
Net assets - beginning of year	1,238,096	870,338	2,108,434
Net assets - end of year	\$ 1,974,598	\$ 2,764,682	\$ 4,739,280

See accompanying notes.

THE FATHER MCKENNA CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2018

	Program Services				Total Program	Supporting Activities			Total
	Day Shelter	Food Pantry	Hypothermia	Other		Management and General	Fundraising General	Fundraising Capital Campaign	
Salaries	\$ 217,381	\$ 22,806	\$ 50,999	\$ 12,718	\$ 303,904	\$ 60,188	\$ 50,134	\$ 26,442	\$ 440,668
Payroll taxes and benefits	53,058	4,010	13,834	3,472	74,374	24,813	13,411	6,940	119,538
Occupancy	270,805	25,647	28,305	5,093	329,850	17,336	5,788	35	353,009
Food and clothing	131,179	139,074	394	30,625	301,272	41	20	-	301,333
Professional fees	4,943	77	319	13	5,352	45,380	55,128	89,661	195,521
Supplies and equipment	26,041	1,319	2,956	102	30,418	-	2,121	139	32,678
Printing and shipping	215	7	33	5	260	524	28,038	563	29,385
Advertising	196	-	-	-	196	815	10,219	10,500	21,730
Depreciation	7,357	550	1,760	477	10,144	5,939	1,878	880	18,841
Insurance	7,921	338	1,045	294	9,598	6,176	1,125	545	17,444
Information technology	3,715	306	1,159	238	5,418	3,304	2,424	417	11,563
Office expenses	4,930	141	418	133	5,622	2,874	511	746	9,753
Meetings, travel, and training	5,957	-	-	49	6,006	665	47	597	7,315
Fees and licenses	1,904	106	22	82	2,114	701	3,513	190	6,518
Local transportation	3,506	50	-	-	3,556	-	-	-	3,556
Total expenses	\$ 739,108	\$ 194,431	\$ 101,244	\$ 53,301	\$ 1,088,084	\$ 168,756	\$ 174,357	\$ 137,655	\$ 1,568,852

See accompanying notes.

THE FATHER MCKENNA CENTER, INC.
STATEMENT OF CASH FLOWS
Year ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 2,630,846
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Contributions restricted for long-term purposes	(1,814,073)
Discount on long-term promises to give	27,072
Amortization of discount on long-term promises to give	(23,000)
Allowance for uncollectible promises to give	53,325
Depreciation	18,841
(Increase) decrease in assets	
Promises to give	(106,434)
Prepaid expenses	(673)
Employee advances	(7,203)
Accrued interest	(5,195)
Increase (decrease) in liabilities	
Accounts payable	367
Accrued payroll and vacation	7,594
Accrued expenses	607
	<u>782,074</u>
Net cash flows from operating activities	782,074
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(119,248)
Redemptions of certificates of deposit	110,000
Purchases of certificates of deposits	(310,000)
Interest retained in certificates of deposit	(12,871)
	<u>(332,119)</u>
Net cash flows from investing activities	(332,119)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on accounts payable used to finance leasehold improvements	(31,356)
Proceeds from contributions restricted for long-term purposes	519,901
	<u>488,545</u>
Net cash flows from financing activities	488,545
Net change in cash	938,500
Cash - beginning of year	<u>443,777</u>
Cash - end of year	<u><u>\$ 1,382,277</u></u>

See accompanying notes.

THE FATHER MCKENNA CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

The Father McKenna Center, Inc. (Center) is a nonprofit organization incorporated in 2012 and is a Catholic social service agency serving individuals and families in need of assistance primarily in Ward 6 of Washington, D.C. The Center's mission is to accompany and care for families struggling with poverty and men facing homelessness by providing food, shelter, clothing and services to support their journey toward stability, productivity, meaning and hope, building upon the good works, ideals and values of Father Horace McKenna, S.J.

The Center fulfills its mission by focusing efforts in the following program service areas:

Day Shelter for Men Struggling with Homelessness

The largest program of the Center is the Day Shelter for men who struggle with homelessness. The Day Shelter is a "drop-in" program that welcomes guests into the Center to meet their immediate needs while providing case management and other support to assist guests to identify the obstacles they face and to develop strategies to overcome those obstacles so that they can reclaim their lives. Each day 80 - 100 men come to the Center for one of many services provided: including meals (breakfast and lunch), showers, laundry, clothing, access to computers, phone and mail, educational programs, and case management and referral services to help the men recognize their full potential. The Day Shelter is open Monday through Friday from 7:00 am to 1:30 pm, with special programs in the afternoon. The Day Shelter provides a safe and secure environment for men who face the chaos of homelessness to develop the individual strategies they need to move toward stability, productivity and meaning in their lives.

Food Pantry

The Food Pantry provides low income families from Ward 6 in Washington, D.C. the opportunity to secure supplemental groceries. Many low income families receive SNAP (Supplemental Nutrition Assistant Program) support, formerly called "Food Stamps." Cuts to SNAP in 2017 have meant most families receiving assistance only receive enough to purchase 20 to 22 days' worth of food. To help fill the gap, the Center provides an array of groceries including: milk, eggs, meat, breads, fresh produce and a variety of nonperishable foods. The estimated value of each bag of groceries is \$70. The Pantry serves 12 to 17 families every day and approximately 200 different families every month. The Pantry is open Monday through Friday and families may visit the Pantry twice per month, with two weeks between visits. During the year ended September 30, 2018, more than 600 families accessed the Food Pantry, and the Center provided food to support more than 52,000 meals in the community.

Hypothermia/Transition Program

The Hypothermia/Transition Program offers a warm, safe and secure place to sleep out of the cold for up to 20 men, with a quality evening meal provided and served by Gonzaga College High School families, and targeted case management services with the goal of finding a job and a permanent place to live. The Hypothermia Program opens on November 1st and continues every night through March 31st every year. The men in the Hypothermia Program set specific goals and work on them with the encouragement of a dedicated case manager. In fiscal 2018, 33 men participated in the Program. Over 75% met one or more of their goals. 21 men found stable housing by the program's end.

THE FATHER MCKENNA CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors. Designations are voluntary segregations approved by the Board of Directors (the Board) of unrestricted net assets for specific purposes, projects, or investments. At September 30, 2018, the Board designated \$500,000 of unrestricted net assets for the Capital Campaign to be utilized for facility renovations.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by the Center in perpetuity. At September 30, 2018, the Center did not maintain any permanently restricted net assets.

Promises to Give

Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give to be received over periods longer than a single year are discounted at an interest rate commensurate with risk involved. The Center establishes an allowance for uncollectable promises to give based on an assessment of individual donors and history of collectability. Promises to give are charged against operations when deemed uncollectible.

Property and Equipment

The Center capitalizes all acquisitions of property and equipment in excess of \$1,000. Property and equipment are carried at cost or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

THE FATHER MCKENNA CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services

Donated services are recognized as support if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased.

Expense Allocation

The costs of providing programs and supporting activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

Income Tax Status

The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation.

Date of Management's Review

Management has evaluated subsequent events through January 25, 2019, the date which the financial statements were available to be issued. Further, to management's knowledge no items of note required disclosure.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2018 consist of the following:

Equipment	\$ 37,349
Computers	13,109
Leasehold improvements	55,481
Vehicles	22,470
Construction in progress	<u>261,976</u>
Property and equipment	390,385
Accumulated depreciation	<u>(95,322)</u>
Property and equipment - net	<u><u>\$ 295,063</u></u>

THE FATHER MCKENNA CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – PROMISES TO GIVE

Promises to give are estimated to be collected in the years ending September 30 and consist of the following:

2019	\$ 1,531,799
2020	424,836
2021	232,506
2022	86,250
2023	<u>30,000</u>
Promises to give	2,305,391
Less discount to net present value at rate of 3.5%	(27,072)
Less allowance for uncollectible promises to give	<u>(53,325)</u>
Promises to give - net	<u><u>\$ 2,224,994</u></u>

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 were available for the following:

Purpose restricted	
Capital campaign	\$ 2,620,472
Ignation mission	7,646
Day Shelter	2,850
Food Pantry	2,220
Clothing/backpacks	1,494
Restricted for future periods	<u>130,000</u>
Temporarily restricted net assets	<u><u>\$ 2,764,682</u></u>

NOTE 5 – SLOW MIRACLES CAPITAL CAMPAIGN

During the year ended September 30, 2018, the Center initiated the Slow Miracles Capital Campaign to obtain donor funding to assist with financing the renovation of its facilities. Contributions and promises to give in connection with the campaign are restricted for expenditures incurred during facility renovations. The estimated cost of the renovations and related enhancements of the facility are approximately \$4,500,000.

The Center entered into an agreement to borrow up to \$1,000,000 to assist with the timing of cash flows in connection with the Capital Campaign renovations. Advances on the line plus any monthly accrued interest are due at maturity and carry an interest rate equal to the Thirty Day LIBOR Rate plus 2.5%. The line matures in February 2021 and is secured by all property and equipment and receivables of the Center. No draws were made on the loan during the year ended September 30, 2018.

THE FATHER MCKENNA CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 6 – DONATED SERVICES

During the year ended September 30, 2018, the Center received donated social media consulting services with a fair value of \$55,000; they are included in professional fees in the statement of functional expenses and were for both Capital Campaign fundraising activities and general promotion.

NOTE 7 – LICENSING AGREEMENT

The Center renewed an agreement with Gonzaga College High School (Gonzaga) granting the Center a license to utilize a portion of its facilities for carrying out the Center's operations at an annual base rent of \$1. The rent rate is established on an annual basis and the license expires February 20, 2023. At the expiration date, if no notice is given to terminate at the expiration date, the license automatically renews every five years for up to 25 years or February 20, 2043. The estimated fair value of the donated facilities and utilities was \$348,768 for the year ended September 30, 2018 and is included in occupancy on the statement of functional expenses.

NOTE 8 – RETIREMENT PLAN

The Center provides a 401(k) plan that allows employees to begin making elective deferrals once they have met the eligibility requirements. The Center makes a discretionary 3% contribution to the plan based on each employee's compensation. Retirement expense was \$8,115 for the year ended September 30, 2018.