

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Encircle Family and Youth Resource Center

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Encircle Family and Youth Resource Center (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Encircle Family and Youth Resource Center as of December 31, 2021 and 2020, 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.

Basis for Qualified Opinion

Encircle Family and Youth Resource Center did not make a count of its physical inventory at the beginning or end of the years, stated in the statement of financial position at \$27,770 and \$24,250 at December 31, 2021 and 2020, respectively. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of inventories at December 31, 2021 and 2020 and the cost of inventories sold during the years then ended. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Encircle Family and Youth Resource Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Encircle Family and Youth Resource Center's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Encircle Family and Youth Resource Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Encircle Family and Youth Resource Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Squire & Company, PC

Orem, Utah
June 5, 2023

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	2021	2020
ASSETS		
Current Assets:		
Cash	\$ 3,515,601	\$ 786,756
Contributions and grants receivable, net	3,594,218	112,558
Prepaid expenses	-	5,417
Inventory	27,770	24,250
	<u>7,137,589</u>	<u>928,981</u>
Total current assets	7,137,589	928,981
Net Fixed Assets	<u>5,024,528</u>	<u>2,472,762</u>
Total assets	<u>\$ 12,162,117</u>	<u>\$ 3,401,743</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 153,323	\$ 45,679
Net Assets:		
Without donor restrictions:		
Designated for fixed assets and inventory	5,052,298	2,497,012
Undesignated	6,376,496	470,749
With donor restrictions	580,000	388,303
	<u>12,008,794</u>	<u>3,356,064</u>
Total net assets	12,008,794	3,356,064
Total liabilities and net assets	<u>\$ 12,162,117</u>	<u>\$ 3,401,743</u>

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

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
STATEMENTS OF ACTIVITIES

Years Ended December 31, 2021 and 2020

	2021	2020
Net Assets Without Donor Restrictions:		
Revenues and support:		
Donations	\$ 10,770,280	\$ 1,849,719
In-kind donations	359,134	40,000
Government grants	452,719	161,000
Special events and merchandise sales:		
Revenue	11,219	45,300
Direct event and merchandise expenses	<u>(2,849)</u>	<u>(42,099)</u>
Net special events and merchandise sales	8,370	3,201
Investment loss	(10,976)	-
Other	28,036	2,808
Net assets released from restrictions	<u>388,303</u>	<u>35,000</u>
Total revenues and support	11,995,866	2,091,728
Expenses:		
Program services	2,541,244	1,215,688
Supporting services:		
Management and general	549,522	130,655
Fundraising	<u>444,067</u>	<u>31,106</u>
Total expenses	<u>3,534,833</u>	<u>1,377,449</u>
Change in net assets without donor restrictions	8,461,033	714,279
Net Assets With Donor Restrictions:		
Donations	580,000	353,303
Net assets released from restrictions	<u>(388,303)</u>	<u>(35,000)</u>
Change in net assets with donor restrictions	<u>191,697</u>	<u>318,303</u>
Change in Net Assets	8,652,730	1,032,582
Net Assets at Beginning of Year	<u>3,356,064</u>	<u>2,323,482</u>
Net Assets at End of Year	<u><u>\$ 12,008,794</u></u>	<u><u>\$ 3,356,064</u></u>

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

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Wages and payroll taxes	\$ 1,264,206	\$ 416,242	\$ 266,194	\$ 1,946,642
Promotion	4,753	3,019	68	7,840
Awards and grants	292,311	-	-	292,311
Professional services	280,460	55,371	20,930	356,761
Insurance	5,505	1,502	-	7,007
Information technology	168,500	51,760	23,486	243,746
Office	18,823	1,399	18,633	38,855
Repairs and maintenance	55,352	980	-	56,332
Supplies	195,341	5,035	48,222	248,598
Travel	55,298	7,086	14,600	76,984
Depreciation	95,944	-	-	95,944
Other	41,070	6,899	51,733	99,702
Occupancy	63,681	229	201	64,111
Total expenses	<u>\$ 2,541,244</u>	<u>\$ 549,522</u>	<u>\$ 444,067</u>	<u>\$ 3,534,833</u>

Year Ended December 31, 2020

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Wages and payroll taxes	\$ 686,781	\$ 24,227	\$ 6,000	\$ 717,008
Promotion	149,466	745	-	150,211
Awards and grants	190,462	-	-	190,462
Professional services	10,163	17,477	2,454	30,094
Insurance	-	26,846	-	26,846
Information technology	9,507	40,696	12,224	62,427
Office	3,342	2,212	3,637	9,191
Repairs and maintenance	7,760	5,969	-	13,729
Supplies	45,002	5,111	2,910	53,023
Travel	3,892	2,686	1,451	8,029
Depreciation	67,773	-	-	67,773
Other	4,090	1,108	2,430	7,628
Occupancy	37,450	3,578	-	41,028
Total expenses	<u>\$ 1,215,688</u>	<u>\$ 130,655</u>	<u>\$ 31,106</u>	<u>\$ 1,377,449</u>

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

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ 8,652,730	\$ 1,032,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	95,944	67,773
Gain on PPP loan forgiveness	(102,719)	(76,000)
Loss on sale of marketable securities	9,480	-
Donation of marketable securities	(211,318)	-
Changes in operating assets and liabilities:		
Contributions and grants receivable	(3,481,660)	88,225
Prepaid expenses	5,417	(5,417)
Inventory	(3,520)	7,417
Accounts payable and accrued expenses	107,644	(18,556)
Total adjustments	<u>(3,580,732)</u>	<u>63,442</u>
Net cash provided by operating activities	5,071,998	1,096,024
Cash Flows from Investing Activities:		
Proceeds from sale of marketable securities	201,838	-
Purchases of fixed assets	<u>(2,647,710)</u>	<u>(597,552)</u>
Net cash used by investing activities	(2,445,872)	(597,552)
Cash Flows from Financing Activities:		
Proceeds from PPP loan	<u>102,719</u>	<u>76,000</u>
Net Change in Cash	2,728,845	574,472
Cash at Beginning of Year	<u>786,756</u>	<u>212,284</u>
Cash at End of Year	<u><u>\$ 3,515,601</u></u>	<u><u>\$ 786,756</u></u>

Supplementary Data:

The Organization paid no interest or income taxes during the years ended December 31, 2021 and 2020.

The Organization had no noncash investing or financing activities during the years ended December 31, 2021 and 2020.

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

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Encircle Family and Youth Resource Center (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.

Organization

The Organization was organized in the state of Utah on March 22, 2016 for the purpose of cultivating an environment where LGBTQ+ individuals can thrive. The Organization currently has locations in Provo, Salt Lake City, and Saint George, Utah, with locations in Heber, Ogden, and Logan, Utah and Rexburg, Idaho under renovation.

Revenue Recognition

The Organization recognizes revenue when cash, an unconditional contribution or promise to give, or grant award has been received. Conditional promises to give, 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.

Financial Statement Presentation

Organization reports 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. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

The Organization has designated a portion of net assets to indicate that such assets (inventory and fixed assets) are not available for appropriation.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor-imposed restrictions. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Net assets with donor restrictions - Net assets that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from with donor restrictions to net assets without donor restrictions.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER NOTES TO THE FINANCIAL STATEMENTS

Cash

At December 31, 2021, the carrying amount of the Organization's cash deposits was \$3,515,601 and the bank balance was \$3,451,695, of which \$701,845 was covered by federal depository insurance.

Contributions and Grants Receivable

Contributions and grants receivable consist of unconditional donations and grants and unconditional promises to give that the Organization had not yet received. No allowance has been established as management considers all amounts to be fully collectable.

Inventory

Inventory consists of apparel and other merchandise held for resale reported at the lower of cost or market.

Fixed Assets

All fixed assets are recorded at cost (or, if donated, at the estimated fair value at the date of donation). Fixed assets valued at \$2,500 or more are capitalized and depreciated, using the straight-line depreciation method over the asset's estimated useful lives.

Repairs and maintenance that do not significantly increase the useful life of the asset are charged to expense as incurred. Capital assets are reviewed for impairment when a significant change in the asset's use or another indicator or possible impairment is met. No impairment losses were recognized in these financial statements.

Contributed Services, Facilities, and Supplies

Donated services are recognized as contributions when the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated facilities are recognized as contributions based on the fair value of the property provided at no charge. Donated supplies are recognized as contributions when they would otherwise be purchased by the Organization and are recorded at the manufacturer's retail price.

Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Certain costs are allocated to one or more program or supporting functions based on time and effort. Such allocations are determined by management on an equitable basis.

Income Taxes

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (except for net income derived from unrelated business activities) and is classified as a Section 501(c)(3) public charity. Also, the Organization is not subject to state income taxes.

**ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
NOTES TO THE FINANCIAL STATEMENTS**

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 support and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through June 5, 2023, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions are recorded when the unconditional promise to give's collection is expected in the near term and is probable. Unconditional promises to give will be received (depending on the donor) from within four year to five years. Contributions to be received after December 31, 2022 have been discounted to their net present value using an interest rate of 4.27 percent.

Contributions receivable are as follows at December 31:

	<u>2021</u>	<u>2020</u>
Receivable within one year	\$ 120,000	\$ 35,000
Receivable from two to five years	<u>460,000</u>	<u>-</u>
Total contributions receivable	580,000	35,000
Discount contributions to net present value	(66,459)	-
Allowance for uncollectable contributions	<u>-</u>	<u>-</u>
Contributions receivable, net	<u><u>\$ 513,541</u></u>	<u><u>\$ 35,000</u></u>

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – FIXED ASSETS

Fixed assets consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>	<u>Estimated Life</u>
Buildings and improvements	\$ 3,442,914	\$ 1,895,651	20 to 30
Furniture and fixtures	101,346	94,722	10
Land	1,087,000	622,000	
Renovations in progress	628,823	-	
	<u>5,260,083</u>	<u>2,612,373</u>	
Accumulated depreciation	<u>(235,555)</u>	<u>(139,611)</u>	
Net fixed assets	<u>\$ 5,024,528</u>	<u>\$ 2,472,762</u>	

NOTE 4 – PPP LOAN

The Organization received loan proceeds of \$102,719 and \$76,000 under the Paycheck Protection Program (PPP) during the years ended December 31, 2021 and 2020, respectively. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, provides for loans to qualifying businesses. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes (including payroll, benefits, rent and utilities) and maintains its payroll levels. The Organization used the loan proceeds for purposes consistent with the PPP and met the conditions for the loan to be forgiven during the years ended December 31, 2021 and 2020. The loans' forgiveness is recorded as a government grant in the statements of activities.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Donor-restricted net assets are summarized as follows at December 31:

	<u>2021</u>	<u>2020</u>
Specific-purpose restrictions:		
Heber property acquisition	\$ -	\$ 353,303
Subject to the passage of time:		
Contributions receivable, unavailable until received	<u>580,000</u>	<u>35,000</u>
Total	<u>\$ 580,000</u>	<u>\$ 388,303</u>

All amounts restricted at December 31, 2020 were released from restrictions during the year ended December 31, 2021.

ENCIRCLE FAMILY AND YOUTH RESOURCE CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – DONATED FACILITIES, SUPPLIES, AND SERVICES

The Organization occupies a home in Provo at no cost. The estimated lease value of the home was \$40,000 for both of the years ended December 31, 2021 and 2020. The Organization also received donated equipment totaling \$107,816. The value of donated facilities and equipment is recognized as support when received and also as an expense.

No amounts have been reflected in the statements for contributed services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Organization.

NOTE 7 – AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at December 31:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 3,515,601	\$ 786,756
Contributions receivable	<u>3,594,218</u>	<u>112,558</u>
Total financial assets	7,109,819	899,314
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(580,000)</u>	<u>(388,303)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 6,529,819</u>	<u>\$ 511,011</u>

The Organization’s goal is generally to maintain financial assets to meet three months of operating expenses (approximately \$850,000). The Organization considers operating expenses to be total expenses less depreciation.

NOTE 8 – RELATED PARTY TRANSACTIONS

Certain members of the Organization’s board are also board members of Encircle Therapy, a nonprofit corporation providing counseling services to LGBTQ+ youth and their families. The Organization refers individuals to Encircle Therapy. The Organization also provides grant awards to assist with the cost of providing counseling services to Encircle Therapy. The Organization awarded Encircle Therapy \$278,425 and \$190,000 during the years ended December 31, 2021 and 2020, respectively.

The Organization received donations totaling \$250,000 and \$0 from board members during the years ended December 31, 2021 and 2020, respectively.