

FOUR CORNERS HOME FOR CHILDREN, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

September 30, 2020 (Audited)
and 2019 (Reviewed)

FINANCIAL STATEMENTS

FOUR CORNERS HOME FOR CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

	2020 (Audited)	2019 (Reviewed)
<u>ASSETS</u>		
Current assets		
Cash.....	\$ 206,175	\$ 58,903
Prepaid expenses and other current assets.....	100	100
Investments.....	94,556	82,364
Total current assets.....	300,831	141,367
Non-current assets		
Investments: endowment fund.....	181,910	181,910
Other non-current assets.....	150,000	191,500
Property and equipment, net of accumulated depreciation.....	1,690,077	1,793,107
Total non-current assets.....	2,021,987	2,166,517
Total assets.....	<u>\$ 2,322,818</u>	<u>\$ 2,307,884</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable.....	\$ 16,151	\$ 15,370
Accrued liabilities.....	24,662	19,910
Line of credit.....	35,958	44,958
Current portion of capital lease obligations.....	3,996	4,729
Current portion of note payable.....	11,169	10,975
Total current liabilities.....	91,936	95,942
Long-term liabilities		
Capital lease obligations, net of current portion.....	10,989	14,987
Note payable, net of current portion.....	165,725	176,937
Total long-term liabilities.....	176,714	191,924
Total liabilities.....	268,650	287,866
Net assets		
Net assets without donor restrictions		
General unrestricted.....	335,116	220,364
Investment in property and equipment, net of related debt.....	1,498,198	1,585,479
Total net assets without donor restrictions.....	1,833,314	1,805,843
Net assets with donor restrictions		
Purpose and/or time restricted net assets.....	38,944	32,265
Restricted in perpetuity.....	181,910	181,910
Total net assets with donor restrictions.....	220,854	214,175
Total net assets.....	2,054,168	2,020,018
Total liabilities and net assets.....	<u>\$ 2,322,818</u>	<u>\$ 2,307,884</u>

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

FOUR CORNERS HOME FOR CHILDREN, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2020 and 2019

	2020 (Audited)				
	Without Donor Restrictions	With Donor Restrictions			Total
		Purpose or time	Perpetuity	Total	
Support, revenue, and gains					
Contributions.....	\$ 409,215	\$ 425,249	\$ -	\$ 425,249	\$ 834,464
Federal paycheck protection program grant.....	-	90,600	-	90,600	90,600
Special event					
Revenue.....	148,185	-	-	-	148,185
Cost of direct benefits to donors.....	(33,499)	-	-	-	(33,499)
Rental revenue.....	28,860				28,860
Miscellaneous.....	1,109	2,691	-	2,691	3,800
Net investment income.....	17,784	-	-	-	17,784
Total before reclassifications.....	571,654	518,540	-	518,540	1,090,194
Net assets released from restriction.....	511,861	(511,861)	-	(511,861)	-
Total support, revenue and gains.....	<u>1,083,515</u>	<u>6,679</u>	<u>-</u>	<u>6,679</u>	<u>1,090,194</u>
Expenses and losses					
Program services					
Child care.....	597,623				597,623
Navajo Nation Outreach.....	6,636				6,636
Radio.....	116,830				116,830
After School.....	25,295				25,295
Total program services.....	<u>746,384</u>				<u>746,384</u>
Supporting services					
Management and general.....	193,044				193,044
Fund raising and development.....	91,722				91,722
Total supporting services.....	<u>284,766</u>				<u>284,766</u>
Total expenses.....	1,031,150				1,031,150
Loss on disposal of assets.....	24,894				24,894
Total expenses and losses.....	<u>1,056,044</u>				<u>1,056,044</u>
Change in net assets before involuntary conversion	27,471	6,679	-	6,679	34,150
Gain on involuntary conversion.....	-	-	-	-	-
Change in net assets after involuntary conversion.....	27,471	6,679	-	6,679	34,150
Net assets at beginning of year.....	1,805,843	32,265	181,910	214,175	2,020,018
Net assets at end of year.....	<u>\$ 1,833,314</u>	<u>\$ 38,944</u>	<u>\$ 181,910</u>	<u>\$ 220,854</u>	<u>\$ 2,054,168</u>

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

2019
(Reviewed)

Without Donor Restrictions	With Donor Restrictions			Total
	Purpose or time	Perpetuity	Total	
\$ 427,181	\$ 465,776	\$ -	\$ 465,776	\$ 892,957
-	-	-	-	-
78,281	-	-	-	78,281
(45,269)	-	-	-	(45,269)
26,825	-	-	-	26,825
4,797	2,678	-	2,678	7,475
9,671	-	-	-	9,671
<u>501,486</u>	<u>468,454</u>	<u>-</u>	<u>468,454</u>	<u>969,940</u>
<u>482,928</u>	<u>(482,928)</u>	<u>-</u>	<u>(482,928)</u>	<u>-</u>
<u>984,414</u>	<u>(14,474)</u>	<u>-</u>	<u>(14,474)</u>	<u>969,940</u>
548,834				548,834
12,517				12,517
177,176				177,176
24,441				24,441
<u>762,968</u>				<u>762,968</u>
225,555				225,555
<u>127,232</u>				<u>127,232</u>
<u>352,787</u>				<u>352,787</u>
1,115,755				1,115,755
7,131				7,131
<u>1,122,886</u>				<u>1,122,886</u>
(138,472)	(14,474)	-	(14,474)	(152,946)
<u>190,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,678</u>
52,206	(14,474)	-	(14,474)	37,732
<u>1,753,637</u>	<u>46,739</u>	<u>181,910</u>	<u>228,649</u>	<u>1,982,286</u>
<u>\$ 1,805,843</u>	<u>\$ 32,265</u>	<u>\$ 181,910</u>	<u>\$ 214,175</u>	<u>\$ 2,020,018</u>

FOUR CORNERS HOME FOR CHILDREN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2020

(with comparative totals for 2019)

	(Audited)								(Reviewed)	
	Program Services				Supporting Services				2020 Total Expenses	2019 Total Expenses
	Child Care	Navajo Nation Outreach	Radio	After School	Total Program Services	Management and General	Fund Raising	Total Supporting Services		
Expenses										
Salaries.....	\$ 244,083	\$ 1,400	\$ 47,364	\$ 5,356	\$ 298,203	\$ 82,211	\$ 46,239	\$ 128,450	\$ 426,653	\$ 512,747
Payroll taxes and benefits.....	22,760	-	2,849	150	25,759	4,555	3,217	7,772	33,531	40,484
Cost of events.....	-	-	107	-	107	-	-	-	107	12,523
Donations and promotion.....	999	2,100	1,160	-	4,259	-	641	641	4,900	11,273
Food, clothing allowance.....	32,773	-	-	-	32,773	-	-	-	32,773	33,502
Insurance.....	24,189	-	5,788	156	30,133	7,136	5,205	12,341	42,474	44,565
Interest.....	-	-	-	-	-	15,074	-	15,074	15,074	12,356
Licenses, fees and dues.....	4,005	-	9,384	-	13,389	8,166	1,453	9,619	23,008	24,702
Maintenance and repairs.....	83,929	-	4,753	-	88,682	26,315	3,421	29,736	118,418	70,284
Postage.....	1,184	171	500	4	1,859	1,930	8,172	10,102	11,961	8,582
Professional services.....	4,518	-	7,997	-	12,515	11,321	3,387	14,708	27,223	41,971
Printing and publishing.....	-	-	244	-	244	1,285	15,651	16,936	17,180	19,860
Supplies.....	13,591	1,834	1,213	428	17,066	4,072	1,511	5,583	22,649	31,103
Telephone and utilities.....	61,988	-	27,897	8,861	98,746	7,255	1,702	8,957	107,703	110,875
Travel and vehicle expense.....	10,303	446	117	-	10,866	276	-	276	11,142	7,826
Other expenses.....	2,043	685	516	74	3,318	9,225	56	9,281	12,599	19,032
Expenses before depreciation....	506,365	6,636	109,889	15,029	637,919	178,821	90,655	269,476	907,395	1,001,685
Depreciation.....	91,258	-	6,941	10,266	108,465	14,223	1,067	15,290	123,755	114,070
Total expenses.....	<u>\$ 597,623</u>	<u>\$ 6,636</u>	<u>\$ 116,830</u>	<u>\$ 25,295</u>	<u>\$ 746,384</u>	<u>\$ 193,044</u>	<u>\$ 91,722</u>	<u>\$ 284,766</u>	<u>\$ 1,031,150</u>	<u>\$ 1,115,755</u>

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

FOUR CORNERS HOME FOR CHILDREN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019

(Reviewed)

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Child Care	Navajo Nation Outreach	Radio	After School		Management and General	Fund Raising	Total Supporting Services	
Expenses									
Salaries.....	\$ 248,654	\$ 2,700	\$ 83,376	\$ 3,195	\$ 337,925	\$ 105,593	\$ 69,229	\$ 174,822	\$ 512,747
Payroll taxes and benefits.....	20,111	-	5,698	-	25,809	6,333	8,342	14,675	40,484
Cost of events.....	-	-	12,523	-	12,523	-	-	-	12,523
Donations and promotion.....	203	2,388	6,958	-	9,549	-	1,724	1,724	11,273
Food, clothing allowance.....	33,502	-	-	-	33,502	-	-	-	33,502
Insurance.....	24,951	-	5,805	582	31,338	7,739	5,488	13,227	44,565
Interest.....	-	-	-	-	-	12,356	-	12,356	12,356
Licenses, fees and dues.....	4,213	2	9,662	-	13,877	9,969	856	10,825	24,702
Maintenance and repairs.....	40,197	-	4,798	763	45,758	20,951	3,575	24,526	70,284
Postage.....	422	61	400	-	883	1,071	6,628	7,699	8,582
Professional services.....	12,998	-	4,773	377	18,148	18,922	4,901	23,823	41,971
Printing and publishing.....	135	-	581	21	737	1,326	17,797	19,123	19,860
Supplies.....	13,855	1,963	6,460	401	22,679	3,793	4,631	8,424	31,103
Telephone and utilities.....	66,210	-	27,063	8,878	102,151	7,103	1,621	8,724	110,875
Travel and vehicle expense.....	4,695	1,180	950	-	6,825	613	388	1,001	7,826
Other expenses.....	2,521	4,223	1,651	-	8,395	9,657	980	10,637	19,032
Expenses before depreciation....	472,667	12,517	170,698	14,217	670,099	205,426	126,160	331,586	1,001,685
Depreciation.....	76,167	-	6,478	10,224	92,869	20,129	1,072	21,201	114,070
Total expenses.....	<u>\$ 548,834</u>	<u>\$ 12,517</u>	<u>\$ 177,176</u>	<u>\$ 24,441</u>	<u>\$ 762,968</u>	<u>\$ 225,555</u>	<u>\$ 127,232</u>	<u>\$ 352,787</u>	<u>\$ 1,115,755</u>

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

FOUR CORNERS HOME FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2020 and 2019

Increase (Decrease) in Cash	2020 (Audited)	2019 (Reviewed)
Cash flows from operating activities:		
Cash received from contributors and others.....	\$ 982,826	\$ 1,136,717
Cash received from federal paycheck protection program grant.....	90,600	-
Cash paid to suppliers and employees.....	(886,240)	(1,027,323)
Interest and dividends received.....	5,373	5,840
Interest paid.....	(15,074)	(12,356)
Net cash provided by operating activities.....	<u>177,485</u>	<u>102,878</u>
Cash flows from investing activities:		
Proceeds from investment sales and redemptions.....	63,724	186,650
Investment purchases.....	(65,081)	(86,426)
Proceeds from sale of property and equipment.....	16,606	-
Purchase of property and equipment.....	(20,713)	(274,259)
Net cash used by investing activities.....	<u>(5,464)</u>	<u>(174,035)</u>
Cash flows from financing activities:		
Proceeds from line of credit.....	-	50,000
Principal payments of note payable.....	(11,018)	(10,532)
Principal payments of annuity obligation.....	-	(563)
Principal payments of capital lease obligations.....	(4,731)	(16,663)
Principal payments of line of credit.....	(9,000)	(5,042)
Net cash provided (used) by financing activities.....	<u>(24,749)</u>	<u>17,200</u>
Net increase (decrease) in cash.....	147,272	(53,957)
Cash at beginning of year.....	<u>58,903</u>	<u>112,860</u>
Cash at end of year.....	<u>\$ 206,175</u>	<u>\$ 58,903</u>

Non-cash investing and financing activities:

During 2019, the Organization received unrestricted contributions of marketable securities valued at \$49,460 and acquired equipment with a capital lease for \$21,087.

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

FOUR CORNERS HOME FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS - Continued For the Years Ended September 30, 2020 and 2019

	2020 (Audited)	2019 (Reviewed)
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 34,150	\$ 37,732
Adjustments to reconcile:		
Depreciation.....	123,754	114,070
Noncash:		
Contributions.....	(560)	(60,310)
Expenses.....	549	10,853
Unrealized gains on investments.....	(10,835)	(3,023)
Net realized loss on disposal of asset.....	24,894	7,131
Decrease (increase) in:		
Prepaid expenses and other current assets.....	-	6,537
Increase (decrease) in:		
Accounts payable.....	781	(5,003)
Accrued liabilities.....	4,752	(5,109)
Total adjustments.....	<u>143,335</u>	<u>65,146</u>
Net cash provided by operating activities.....	<u>\$ 177,485</u>	<u>\$ 102,878</u>

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

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 1 - NATURE OF OPERATIONS

Four Corners Home for Children, Inc. (the Organization) is a charity based in Farmington, New Mexico. For financial reporting purposes, four program areas are identified. The childcare program, which encompasses the Four Corners Home for Children (FCHC), provides foster home care to Navajo children in facilities owned and operated by the Organization. Navajo Nation Outreach provides outreach to the Navajo population living in and outside of the Navajo Nation. The radio outreach operates through radio station KNMI. The school is operated for the benefit of children in the childcare program. In fiscal year 2018, the school program was modified to be an after-school program. The Organization is supported primarily through contributions from individuals as well as local businesses and churches throughout the United States.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with the U.S. generally accepted accounting principles (GAAP). Net assets and revenues, expenses, gains and losses are classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

Without donor restrictions - These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, receiving interest from operating investments, less expenses incurred in providing academic department support, scholarships, raising contributions, and performing administrative functions.

With donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt; endowment, annuity, and life income gifts; pledges; and investment returns on endowment funds held in perpetuity, and endowments where the principal may be expended upon the passage of a stated period of time. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments

The carrying value of cash, nonoperating assets, accounts payable and accrued liabilities, and line-of-credit are stated at carrying cost at September 30, 2020 and 2019, which approximates fair value due to the relatively short maturity of these instruments. Other financial instruments held at year-end are investments, which are stated at fair value.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash

For purposes of the statement of cash flows, the Organization defines cash to include all demand deposits and cash on hand. Cash carried in investment accounts is not included.

Prepaid expenses

Payments made to vendors for services that will benefit periods beyond the current fiscal year are recorded as prepaid expenses. Prepaid items are recognized as expenses during the period benefited.

Investments

Investments in equity securities with readily determinable market values are recorded at fair value. Unrealized and realized gains and losses on these investments are reported in the statement of activities without donor restrictions. Securities are generally held in custodial investment accounts administered by certain financial institutions. See Note 3 for further details.

Property and equipment

The Organization capitalizes property and equipment acquisitions of \$2,500 or more when the useful life is more than one year. Property and equipment purchased by the Organization is recorded at cost. Depreciation on assets in service is provided using the straight-line method based on estimated useful lives of ten to forty years for buildings and five to ten years for equipment and vehicles. Equipment purchased under capital leases is amortized over the life of the lease and is included in depreciation expense.

Gift Annuities

The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. The contributed assets are recorded at their fair value as general assets of the Organization. The assets to fund these liabilities are maintained in a separate and distinct account and are invested in accordance with applicable state laws and reserve requirements. Net present values are calculated using the applicable federal discount rate at the date of the gift. The annuity liability is revalued annually based upon actuarially computed present values. Resulting actuarial gain or loss is recorded as donor restricted revenue. At September 30, 2020 and 2019, there was no annuity liability.

Support and revenue recognition

All contributions, including gifts of land, buildings and other assets, are recorded at their fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of the donated assets. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the reporting period in which the contributions are received. Conditional promises to give are recognized when the condition on which they depend are substantially met and the promises become unconditional. The Organization reports gifts of long-lived assets as net assets without donor restrictions when the asset is placed in service.

In-kind Gifts

The Organization recognizes contribution revenue for certain donated services and materials received at the fair value of those services and materials. During the years ended September 30, 2020 and 2019, contributed services and materials totaled \$560 and \$60,310 and were used primarily in program activities.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional allocation of expenses

The costs of providing the Organization's various programs and supporting services have been reported on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques.

Reclassifications

Certain reclassifications have been made to the prior year statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged by these reclassifications.

Federal Income Tax Status

The Organization is exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization has adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the Organization continues to qualify to be treated as a tax-exempt organization for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying statements of financial position along with any interest and penalties that would result from that assessment. If the Organization has unrelated business income, the federal Exempt Organization Business Income Tax Returns (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as administrative expenses.

Based on the results of management's evaluation, these requirements did not have a material effect on the Organization's financial statements. Consequently, no liability or expense is recognized in the accompanying statements for uncertain income tax positions.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. Then again, in June 2020, the FASB issued ASU 2020-05 as a limited deferral of the effective date for annual periods beginning after December 15, 2019. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent accounting pronouncements - Continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale on whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. Then again, in June 2020, the FASB issued ASU 2020-05 as a limited deferral of the effective date for annual periods beginning after December 15, 2021. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments

Investments consisted of the following at September 30:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 10,832	\$ 12,934
Mutual Funds		
Fixed income	96,481	101,100
Equities	<u>157,204</u>	<u>139,073</u>
Total mutual funds	253,685	240,173
Exchange traded funds	5,973	2,731
Stocks	<u>5,976</u>	<u>8,436</u>
Total investments	<u>\$ 276,466</u>	<u>\$ 264,274</u>
Investments as reported on the statement of financial position:		
Investments	\$ 94,556	\$ 82,364
Investments: endowment fund	<u>181,910</u>	<u>181,910</u>
	<u>\$ 276,466</u>	<u>\$ 264,274</u>

Fair Value Measurements

U.S. GAAP provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the primary or most advantageous market for the asset or liability in an orderly transaction between market participants. The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

Assets classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020 and 2019.

Cash Equivalents - Consist primarily of money market funds and are valued at the closing price reported on the active markets in which the securities are traded at fiscal yearend.

Mutual Funds, Exchange Traded Funds and Stocks - Valued at quoted market prices in active markets.

All investments of the Organization are valued using Level 1 inputs. The valuation methodologies used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization's management believes its valuation methods are 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.

Net investment income was as follows for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 5,373	\$ 5,840
Realized gain	5,170	4,286
Unrealized gain	10,835	3,023
Investment fees	(3,594)	(3,478)
Net investment income	<u>\$ 17,784</u>	<u>\$ 9,671</u>

NOTE 4 - NON-OPERATING ASSETS

The Organization has a partial ownership interest in undeveloped land from a bequest directed to the Organization in 2008. The undeveloped land was appraised in 2018 and valued at \$150,000, an increase from \$25,000. The partial interest in land is included as a non-current asset on the statement of financial position.

During 2015, the Organization received title to land valued at \$41,500. The Organization originally anticipated using the property as a location for future staff training and retreat facility. However, during September 30, 2020, the Organization sold the land and incurred a \$24,894 loss on the disposal.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 47,500	\$ 47,500
Buildings and site improvements	3,133,672	3,119,401
Furniture and fixtures	52,582	109,580
Vehicles	108,218	111,318
Equipment	<u>386,294</u>	<u>564,258</u>
	3,728,266	3,952,057
Accumulated depreciation	<u>(2,038,189)</u>	<u>(2,158,950)</u>
Net property and equipment	<u>\$ 1,690,077</u>	<u>\$ 1,793,107</u>

NOTE 6 - LINE OF CREDIT

The Organization has a line of credit with a bank with an available borrowing limit of \$50,000 that expires on April 19, 2022. The line carries interest at Wall Street Journal prime rate plus 1.0%, with a floor of 5.25% and ceiling 8.25%. The total borrowing rate was 5.25% and 6.00% at September 30, 2020 and 2019, respectively. The outstanding balance was \$35,958 and \$44,958 at September 30, 2020 and 2019, respectively. The line is secured by real property of the Organization. The amount of unused line of credit was \$14,042 and \$5,042 on September 30, 2020 and 2019, respectively.

NOTE 7 - LEASES

The Organization entered into two capital lease agreements in 2019 for the acquisition of office equipment. The obligations and assets acquired are recorded at the present value of the minimum lease payments, applying an interest rate of 6.5%.

The assets are included in equipment at a cost of \$21,087 for both of the years ended September 30, 2020 and 2019. Amortization under the capital lease obligations was \$7,023 and \$2,806 for the years ended September 30, 2020 and 2019, respectively. Interest expense under the capital lease obligations was \$1,244 and \$1,180 for the years ended September 30, 2020 and 2019, respectively.

Future minimum lease payments under the current capital leases are as follows:

<u>Year ending September 30,</u>	
2021	\$ 4,865
2022	4,865
2023	4,865
2024	<u>2,223</u>
	16,818
Less: amount representing interest	<u>(1,833)</u>
Present value of future minimum lease payments	14,985
Less: current portion	<u>(3,996)</u>
Long-term portion	<u>\$ 10,989</u>

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 8 - NOTE PAYABLE

In 2019, the Organization entered into a secured loan renewal agreement for the 2015 long-term note with Citizens Bank. The note matures March 2023 and is payable in monthly installments of \$1,907, including interest at a rate of 6.5%. The note is secured by real estate that is fully depreciated and includes a balloon payment due in March 2023. The balance outstanding was \$176,894 and \$187,912 at September 30, 2020 and 2019, respectively. Interest expense was \$11,862 and \$11,176, respectively, for the years ended September 30, 2020 and 2019.

A summary of principal maturities on long-term debt is as follows:

<u>Year ending September 30,</u>	
2021	\$ 11,169
2022	12,496
2023	<u>153,229</u>
	<u>\$ 176,894</u>

NOTE 9 - PAYCHECK PROTECTION PROGRAM

In April 2020, the Organization received a conditional contribution funded through a Small Business Administration (SBA) loan in the amount of \$90,600 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over eighteen months at an interest rate of 1%, with a deferral of payments for the first six months. The Organization has used the proceeds for purposes consistent with the PPP and in December 2020, the Organization was approved for forgiveness of the full amount of proceeds received. The Organization recognized \$90,600 as restricted federal grant revenue on the statement of activities for the year ended September 30, 2020, and the conditional contribution is recognized under operating activities on the statements of cash flows.

NOTE 10 - CONTINGENCIES

The Organization is exposed to various claims; risks of loss related to torts; thefts of, damages to or destruction of assets; errors or omissions; injuries to employees, or acts of God in the normal course of business. Except as discussed below, the opinion of management and legal counsel, all such pending matters are either adequately covered by insurance, or if not insured, will not have a material adverse effect on the financial position or results of operations of the Organization.

The Organization is currently seeking a resolution over undeveloped land that was bequest directly to the Organization. The land is owned as tenants in common with an unrelated individual owning fifty percent. The Organization has determined that it would be premature to accrue a liability for costs arising from this issue, and none has been recorded in the statements of financial position.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 11 - EMPLOYEE BENEFITS

Employees of the Organization are entitled to paid vacation depending on length of service and other factors. At September 30, 2020 and 2019, accumulated vacation leave of \$18,461 and \$12,422, respectively, was accrued and included in accrued liabilities in the accompanying statements of financial position. Sick leave is not accrued because it does not vest. The Organization also sponsors a pension plan for its employees as provided under section 403(b) of the Internal Revenue Code. Employee contributions to the plan are voluntary and allow the employee to defer income tax on that portion of wages earned. The Organization, as employer, does not contribute directly to the plan.

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction are restricted for the following purposes or periods at September 30:

	<u>2020</u>	<u>2019</u>
Subject to the passage of time or expenditure for specified purpose:		
Navajo Nation Outreach	\$ 3,353	\$ -
After School	26,591	23,265
Endowment	<u>9,000</u>	<u>9,000</u>
Total subject to the passage of time or expenditure for specified purpose	38,944	32,265
Perpetuity:		
Endowment	<u>181,910</u>	<u>181,910</u>
Total net assets with donor restrictions	<u>\$ 220,854</u>	<u>\$ 214,175</u>

NOTE 13 - ENDOWMENT

Organization endowment funds consist of cash, securities, or other assets held to provide income to fulfill the purpose of the Organization. The use of the assets may be with or without donor restrictions. The portion of the funds that must be maintained in perpetuity, not used up, expended or otherwise exhausted and the portion of the funds that must be maintained for a specific term or for a specified purpose are classified as net assets with donor restrictions. The portion of the funds that may be expended at the discretion of the Board of Directors is classified as net assets without restrictions.

Interpretation of relevant law

The Four Corners Home for Children Board of Directors follows the Uniform Prudent Management of Institution Funds Act (UPMIFA) as stated in New Mexico Revised Statutes, as well as other applicable state and federal laws to comply with explicit donor stipulations on each gift in determining the classification of net assets as described above. In accordance with UPMIFA, the Board considers the following factors in making a determination to appropriate or to accumulate funds.

1. The duration and preservation of the endowment fund;
2. The purpose of the Organization and endowment fund;
3. General economic conditions;
4. The possible effects of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and
7. The investment policy of the Organization.

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 13 - ENDOWMENT - Continued

Return objectives and risk parameters

The Endowment Funds are to be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income. Endowment Fund assets may be invested in certificates of deposit, Treasury bills, commercial paper, bankers acceptances, repurchase agreements, mutual funds, exchange traded funds, equities (including common stock, preferred stock, convertible securities and other equities, whether traded on an exchange or not publicly traded), fixed income securities, real estate, commodities, natural-resource related stock, hedge funds, derivatives, alternate investment vehicles and, as to an appropriate portion, cash equivalent investments.

Strategies employed for achieving objectives

The asset allocation of each of the Endowment Funds shall be determined from time to time by the Board of Directors, in consultation with any managers or advisors if desired (unless the Board delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

As of September 30, 2020 and 2019, the endowment net asset composition consisted of donor-restricted endowment funds totaling \$181,910, of which \$115,910 is invested in equity mutual funds and \$66,000 is invested in fixed income securities.

NOTE 14 - INVOLUNTARY CONVERSION

During the year ended September 30, 2019, the Organization incurred damage to its property located at 2103 West Main Street, Farmington, New Mexico as result of the City of Farmington causing the sewer lines to back up on the Organization's property. The City and the Organization entered into an agreement to reimburse the Organization for damages. The total amount reimbursed to the Organization was \$190,678 and the total amount spent on building repairs and replacement was \$207,727.

NOTE 15 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of September 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 206,175	\$ 58,903
Prepaid expenses and other current assets	100	100
Investments	276,466	264,274
Current liabilities	<u>(91,936)</u>	<u>(95,942)</u>
Financial assets, at year-end	390,805	227,335
Less those unavailable for general expenditure within one year due to:		
Perpetual endowments	<u>(181,910)</u>	<u>(181,910)</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 208,895</u>	<u>\$ 45,425</u>

FOUR CORNERS HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS - Continued
September 30, 2020 (Audited) and 2019 (Reviewed)

NOTE 16 - SUBSEQUENT EVENTS

Four Corners Home for Children Inc.'s management has performed subsequent events procedures through February 6, 2021, which is the date the financial statements were available to be issued. Other than the following described below, there were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.

COVID-19

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine, and social distancing requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has caused disruption to the Organization beginning in March 2020, resulting in the temporary closure of the Organization's administrative offices. As a result, recent market conditions have resulted in an unusually high degree of volatility and increased the risks and may affect the short-term liquidity associated with investments held by the Organization, which could impact the value of investments after the date of these financial statements. As the values of individual investments fluctuate with market conditions, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined.

Paycheck Protection Program

The Organization received a loan from Citizens Bank in the amount of \$90,600 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 13, 2020. The Organization applied for and in December 2020 was notified that \$90,600 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven.

Corporation name change

The Organization filed with the New Mexico Secretary of State to change the Organization's name from Navajo Ministries Incorporated to Four Corners Home for Children, Inc. The business amendment was filed in November 2020.

Line of credit

In January 2021, the Organization repaid the outstanding balance of the line of credit. See Note 6 for additional information.

SUPPLEMENTARY INFORMATION

FOUR CORNERS HOME FOR CHILDREN, INC.

SCHEDULE OF REVENUES, EXPENSES AND

CAPITAL EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2020

(With comparative totals for 2019)

	Program Services			
	Child Care	Navajo Nation Outreach	Radio	After School
Support, revenue and gains				
Contributions - cash.....	\$ 314,929	\$ 9,989	\$ 84,107	\$ 15,664
Contributions - non-cash.....	-	-	560	-
Federal paycheck protection program grant.....	90,600	-	-	-
Special event				
Revenue.....	-	-	-	-
Cost of direct benefits to donors.....	-	-	-	-
Rental revenue.....	19,410	-	9,450	-
Miscellaneous.....	-	581	360	2,691
Net investment income.....	-	-	-	-
Total support, revenue and gains.....	<u>424,939</u>	<u>10,570</u>	<u>94,477</u>	<u>18,355</u>
Expenses				
Salaries.....	244,083	1,400	47,364	5,356
Payroll taxes and benefits.....	22,760	-	2,849	150
Cost of events.....	-	-	107	-
Donations and promotion.....	999	2,100	1,160	-
Food, clothing allowance.....	32,773	-	-	-
Insurance.....	24,189	-	5,788	156
Interest.....	-	-	-	-
Licenses, fees and dues.....	4,005	-	9,384	-
Maintenance and repairs.....	83,929	-	4,753	-
Postage.....	1,184	171	500	4
Professional services.....	4,518	-	7,997	-
Printing and publishing.....	-	-	244	-
Supplies.....	13,591	1,834	1,213	428
Telephone and utilities.....	61,988	-	27,897	8,861
Travel and vehicle expense.....	10,303	446	117	-
Other expenses.....	2,043	685	516	74
Total expenses excluding depreciation and losses.....	<u>506,365</u>	<u>6,636</u>	<u>109,889</u>	<u>15,029</u>
Excess (deficiency) of revenues over expenses, excluding depreciation, loss on sale of assets and gain on involuntary conversion.....	(81,426)	3,934	(15,412)	3,326
Less capital expenditures.....	<u>20,713</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net after capital expenditures.....	<u>\$ (102,139)</u>	<u>\$ 3,934</u>	<u>\$ (15,412)</u>	<u>\$ 3,326</u>

See accompanying notes and independent auditor's report.

Supporting Services						
Management and General	Fund Raising	Non- Specified	Total Before Facilities	Facilities	2020 Total	2019 Total
\$ -	\$ 17,168	\$ 387,331	\$ 829,188	\$ 4,716	\$ 833,904	\$ 832,647
-	-	-	560	-	560	60,310
-	-	-	90,600	-	90,600	-
-	148,185	-	148,185	-	148,185	78,281
-	(33,499)	-	(33,499)	-	(33,499)	(45,269)
-	-	-	28,860	-	28,860	26,825
155	13	-	3,800	-	3,800	7,475
-	-	17,784	17,784	-	17,784	9,671
<u>155</u>	<u>131,867</u>	<u>405,115</u>	<u>1,085,478</u>	<u>4,716</u>	<u>1,090,194</u>	<u>969,940</u>
82,211	46,239	-	426,653	-	426,653	512,747
4,555	3,217	-	33,531	-	33,531	40,484
-	-	-	107	-	107	12,523
-	641	-	4,900	-	4,900	11,273
-	-	-	32,773	-	32,773	33,502
7,136	5,205	-	42,474	-	42,474	44,565
-	-	-	-	15,074	15,074	12,356
8,166	1,453	-	23,008	-	23,008	24,702
26,315	3,421	-	118,418	-	118,418	70,284
1,930	8,172	-	11,961	-	11,961	8,582
11,321	3,387	-	27,223	-	27,223	41,971
1,285	15,651	-	17,180	-	17,180	19,860
4,072	1,511	-	22,649	-	22,649	31,103
7,255	1,702	-	107,703	-	107,703	110,875
276	-	-	11,142	-	11,142	7,826
9,225	56	-	12,599	-	12,599	19,032
<u>163,747</u>	<u>90,655</u>	<u>-</u>	<u>892,321</u>	<u>15,074</u>	<u>907,395</u>	<u>1,001,685</u>
						-
(163,592)	41,212	405,115	193,157	(10,358)	182,799	(31,745)
<u>-</u>	<u>-</u>	<u>-</u>	<u>20,713</u>	<u>-</u>	<u>20,713</u>	<u>295,346</u>
<u>\$ (163,592)</u>	<u>\$ 41,212</u>	<u>\$ 405,115</u>	<u>\$ 172,444</u>	<u>\$ (10,358)</u>	<u>\$ 162,086</u>	<u>\$ (327,091)</u>