

AUDIT AND FINANCE COMMITTEE

2019 ANNUAL REPORT OF OPERATIONS AND FINANCIAL POSITIONⁱ

Dear Stakeholder:

Good News Outreach, Inc. (GNO) is a faith-based organization dedicated to relieving physical, mental, emotional, and spiritual suffering to those within our surrounding community. We accomplish this mission through our four programs: Food Service, Elder Care, the Mercy House, and the Maryland Oaks Crossing community. Food Service and Elder Care generally operates by means of in-kind contributions and volunteer members. Our other two programs involve residential housing and client services. These programs generate rent revenue from our tenant clients but require addition support through public support and grants to meet expenses.

FINANCIAL POSITION

Due to the nature of our residential programs, a substantial portion, 94%, of our financial resources are invested in long-term assets, primarily land and buildings. Associated with these long-term assets are long-term liabilities, comprised primarily of mortgage notes. In 2019 there were no substantial changes in the composition of our long-term assets. The reduction to GNO's Net Assets is for the most part attributed to depreciation charges required by Generally Accepted Account Practice.

RESULTS OF OPERATIONS

In 2019 GNO's total revenue decreased by -10%. This was due primarily from reduced grant funding from state and local governments and lower than anticipated occupancy at all three residential sites. The revenue reduction was mitigated by a comparable -7% reduction of expenses. When adjusted for depreciation expense, GNO's program operational revenue exceeded operational expenses by \$28,017. These proceeds were used to meet principal payments on GNO's long-term debt.ⁱⁱ

RISK ASSESSMENT

The board of directors and GNO management have evaluated potential risks and planned a course of action to meet these challenges.

Among the risks identified include:

- Limited working capital and liquidity of assets
- Reliance on limited sources of government and public support
- Staff turnover
- Achieving full occupancy at Maryland Oaks Crossing and Mercy House

In response to the conditions and events management has implemented a plan to mitigate the risks. This plan was implemented beginning in the second half of 2019 and fully in place by June 2020. The plan includes the following actions:

1. The hiring of a new Executive Director experienced in the fiscal operation of a not-for-profit organization, fundraising ability, and community outreach.
2. Recruiting and hiring key staff employees.
3. Contracting with an outside accounting and finance firm to be charged with bookkeeping, establishing internal controls and overall financial management.
4. Establishment of a Finance and Audit Committee within the Board of Directors with accounting, legal and banking experience.
5. The reduction of expenses through partnerships with other area not-for-profit organizations, in-kind contributions, client participation in maintenance and repairs, and reduction of short-term interest payments.
6. Increasing revenue by achieving full occupancy of its housing programs, where possible increasing client payment for utilities, increased public support and aggressively pursuing public and private grants.
7. Establishment and monitoring of a twelve-month cash budget, with variance follow-up throughout the organization.
8. Sale of Tatum House (Elder Care) property.
9. Elimination of credit card and line of credit liabilities.
10. Reduction of long-term debt balances.

As of June 30, 2020, GNO's unaudited interim Net Revenue over expenses is \$71, 533, before non-cash items, as opposed to the June 30, 2019 deficit of -\$27,004. GNO's liquidity has been significantly strengthened, as of the June 30, 2020 (unaudited) current assets were \$213, 540 against currently liabilities of \$59,351.¹ The board and management view this as evidence of the success of the plan.

Management Response to Internal Control Deficiencies

Segregation of Duties

Management agrees with the findings of the audit and has taken actions to correct. In 2019 the organization contracted with an outside accounting firm for bookkeeping, accounting, and finance services. This will allow for separation of duties for record keeping and receipt and payment as the outside firm has adequate staffing to insure separation of duties. Accounting staff no longer have check signing authority.

The monthly bank reconciliation is performed by a different member of the outside accounting firm than the member responsible for the bookkeeping function. In addition, the organization's board of directors has established a Finance and Audit Committee that will monitor and review bank reconciliations and cash receipts and disbursements.

Management is confident the segregation of duties will be in place for the 2020 year ending.

Allocation of Functional Expenses

Management agrees with the findings of the audit and has taken actions to correct. As stated above the organization association with the outside firm has provided additional resources to assist in designing a system of indirect cost allocation among program, administration, and fundraising functions.

¹ Current liabilities (unaudited) do not include an SBA Payroll Protection Program loan which GNO believes will be fully forgiven.

Appropriate cost drivers are being identified for each indirect cost pool. Timekeeping functions are being strengthened and may be deemed the appropriate cost driver for some costs.

Management is confident the allocation methods will be in place for the 2020 year ending.

Good News Outreach - Comparative Financials & Ratio Analysis														
Balance Sheet	2019	% of Total	Change	2018	% of Total	Change	2017	%	Chng	2016	%	Chng	2015	%
Assets														
Current Assets	\$ 112,755	6%	-13%	\$ 129,468	6%	-14%	\$ 149,966	7%	0.4%	\$ 149,342	7%	-13.6%	\$ 172,787	7%
LT Assets	\$ 1,806,406	94%	-5%	\$ 1,901,438	94%	-6%	\$ 2,026,307	93%	-5%	\$ 2,129,144	93%	-5%	\$ 2,238,653	93%
Total Assets	\$ 1,919,161			\$ 2,030,906		-7%	\$ 2,176,273		-4%	\$ 2,278,486		-6%	\$ 2,411,440	
Liabilities														
Current Liabilities	\$ 185,182	15%	18%	\$ 156,426	12%	-62%	\$ 407,912	29%	87%	\$ 217,718	15%	7%	\$ 202,669	13%
LT Liabilities	\$ 1,091,172	85%	-6%	\$ 1,160,158	88%	16%	\$ 1,004,169	71%	-19%	\$ 1,244,471	85%	-6%	\$ 1,323,622	87%
Total Liabilities	\$ 1,276,354	67%	-3%	\$ 1,316,584	65%	-7%	\$ 1,412,081	65%	-3%	\$ 1,462,189	64%	-4%	\$ 1,526,291	63%
Net Assets	\$ 642,807	33%	-10%	\$ 714,322	35%	-7%	\$ 764,192	35%	-6%	\$ 816,297	36%	-8%	\$ 885,149	37%
Income Statement														
Revenue (Includes In-Kind)														
Rental income	\$ 313,731	40%	-4%	\$ 328,202	37%	-18%	\$ 401,198	41%	-0.6%	\$ 403,609	39%	-0.1%	\$ 403,821	40%
Grants	\$ 82,260	10%	-33%	\$ 123,639	14%	-16%	\$ 147,868	15%	2%	\$ 145,468	14%	13%	\$ 128,336	13%
Public Support & Foundations	\$ 396,490	50%	-8%	\$ 428,978	49%	-2%	\$ 436,092	44%	-10%	\$ 484,215	47%	3%	\$ 469,483	47%
Total Revenue	\$ 792,481		-10%	\$ 880,819		-11%	\$ 985,158		-5%	\$ 1,033,292		3%	\$ 1,001,640	
Expense (Includes In-Kind)														
Program Exp	\$ 713,511	81%	-15%	\$ 843,430	96%	-13%	\$ 971,720	99%	-4%	\$ 1,016,406	98%	14%	\$ 891,527	89%
Admin Exp	\$ 149,855	17%	73%	\$ 86,673	10%	34%	\$ 64,490	7%	-23%	\$ 83,531	8%	-31%	\$ 121,825	12%
Fundraising	\$ 630	0%	8%	\$ 586	0%	-44%	\$ 1,053	0.1%	-52%	\$ 2,207	0%	158%	\$ 856	0%
Total Exp	\$ 863,996	98%	-7%	\$ 930,689	106%	-10%	\$ 1,037,263	105%	-6%	\$ 1,102,144	107%	9%	\$ 1,014,208	101%
Revenue in Excess of Exp	\$ (71,515)	-8%	43%	\$ (49,870)	-6%	-4%	\$ (52,105)	-5%	-24%	\$ (68,852)	-7%	448%	\$ (12,568)	-1%
Operating Income (Adj Depreciation)	\$ 28,017			\$ 50,155		-1%	\$ 50,732	25%		\$ 40,657		-59%	\$ 100,251	
EBITDA	\$ 107,797			\$ 120,553		-4%	\$ 126,010		7%	\$ 118,287		-38%	\$ 190,075	
Cash Flow														
Net Cash Operations	\$ 35,405			\$ 100,171		56%	\$ 64,408		92%	\$ 33,607		-34%	\$ 50,637	
Net Cash Investing	\$ (4,000)			\$ -			\$ -			\$ -			\$ 220,273 [*]	
Net Cash Financing	\$ (67,357)			\$ (86,372)		29%	\$ (66,829)		1%	\$ (65,921)		-66%	\$ (191,590)	
Net Increase in Cash	\$ (35,952)			\$ 13,799		-670%	\$ (2,421)		-93%	\$ (32,314)		-141%	\$ 79,320	
														*Non-recurring income sale of asset
RATIO ANALYSIS														
Current Ratio	0.61			0.83			0.37			0.69			0.85	
Debt to net assets	1.99			1.84			1.85			1.79			1.72	
Times Interest Earned (EBITDA)	1.61			1.81			1.89			1.77			2.85	
Debt Ratio	0.67			0.65			0.65			0.64			0.63	
DEPRECIATION AND INTEREST														
Depreciation & Amortization	\$ 99,532.00			\$ 100,025			\$ 102,837			\$ 109,509			\$ 112,819	
Interest Expense	\$ 79,780.00			\$ 70,398			\$ 75,278			\$ 77,630			\$ 89,824	
Net Assets Adj for Depreciation	\$ 742,339			\$ 814,347			\$ 867,029			\$ 925,806			\$ 997,968	
Operating Income (Adj Depreciation)	\$ 28,017.00			\$ 51,868			\$ 50,732			\$ 40,657			\$ 100,251	
EBITDA	\$ 107,797.00			\$ 120,553			\$ 126,010			\$ 118,287			\$ 190,075	

ⁱ This report is separate from the audited financial statements. All financial information was obtained solely from the audited financial statements, except where noted.