

**SANTA BARBARA RESCUE MISSION
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

SANTA BARBARA RESCUE MISSION

September 30, 2019

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

111 E. Victoria Street, 2nd Floor, Santa Barbara, CA 93101, (805) 962-9175, www.mcgowan.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Rescue Mission
Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Santa Barbara Rescue Mission (a non-profit organization) and affiliated organization, which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Rescue Mission as of September 30, 2019, 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.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental statement of financial position and statement of activities and changes in net assets are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Santa Barbara Rescue Mission's September 30, 2018, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated January 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

February 27, 2020

SANTA BARBARA RESCUE MISSION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2019

(With Comparative Totals for September 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>	<u>(Memo) Total 2018</u>
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 130,947	\$ -	\$ 130,947	\$ 338,750
Prepaid expenses and other assets	75,529	-	75,529	67,019
Pledges receivable - current portion	-	318,185	318,185	652,976
Other receivables	57,681	-	57,681	-
Total Current Assets	<u>264,157</u>	<u>318,185</u>	<u>582,342</u>	<u>1,058,745</u>
Other Assets:				
Restricted cash	-	1,678,836	1,678,836	1,273,272
Pledges receivable - net of current portion	-	733,770	733,770	210,462
Investment	425,085	-	425,085	425,085
Investment in perpetual income trust	-	592,300	592,300	591,536
Loan receivable	6,830,751	-	6,830,751	-
Land, buildings, and equipment, net	12,932,315	-	12,932,315	9,638,035
Due (to)/from other fund	(520,000)	520,000	-	-
Total Assets	<u>\$ 19,932,308</u>	<u>\$ 3,843,091</u>	<u>\$ 23,775,399</u>	<u>\$ 13,197,135</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 806,981	\$ -	\$ 806,981	\$ 1,220,506
Accrued payroll and related liabilities	47,336	-	47,336	86,474
Other accrued liabilities	73,179	-	73,179	6,100
Deferred revenue	25,397	-	25,397	24,140
Total Current Liabilities	<u>952,893</u>	<u>-</u>	<u>952,893</u>	<u>1,337,220</u>
Non-Current Liabilities:				
Notes payable	10,661,542	-	10,661,542	939,357
Total Liabilities	<u>11,614,435</u>	<u>-</u>	<u>11,614,435</u>	<u>2,276,577</u>
Net Assets				
Without Donor Restrictions	8,317,873	-	8,317,873	7,672,312
With Donor Restrictions	-	3,843,091	3,843,091	3,248,246
Total Net Assets	<u>8,317,873</u>	<u>3,843,091</u>	<u>12,160,964</u>	<u>10,920,558</u>
Total Liabilities and Net Assets	<u>\$ 19,932,308</u>	<u>\$ 3,843,091</u>	<u>\$ 23,775,399</u>	<u>\$ 13,197,135</u>

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

SANTA BARBARA RESCUE MISSION

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

(With Comparative Totals for September 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>	<u>(Memo) Total 2018</u>
Support and Revenue				
Gifts and grants	\$ 2,044,339	\$ 2,808,103	\$ 4,852,442	\$ 2,620,437
Special events, net of expenses of \$53,012	442,947	-	442,947	321,054
Bequests	71,092	-	71,092	602,105
Rental income	28,778	-	28,778	36,566
Non-cash contributions	116,813	-	116,813	143,007
Fee income	71,942	-	71,942	83,961
Loss on retirement of fixed assets	(1,371,413)	-	(1,371,413)	-
Miscellaneous income	81,189	-	81,189	5,658
Perpetual interest trust income	9,235	-	9,235	7,603
Interest income	7,894	-	7,894	50
Change in value of interest in perpetual trust	764	-	764	27,986
Net assets released from restriction	2,213,258	(2,213,258)	-	-
Total Support and Revenue	<u>3,716,838</u>	<u>594,845</u>	<u>4,311,683</u>	<u>3,848,427</u>
Expenses				
Program Expenses:				
Men's recovery program	844,482	-	844,482	797,733
Women's recovery program	495,118	-	495,118	492,432
Homeless guest services	521,393	-	521,393	438,496
Learning center	85,675	-	85,675	79,808
Total Program Expenses	<u>1,946,668</u>	<u>-</u>	<u>1,946,668</u>	<u>1,808,469</u>
Management and general	389,375	-	389,375	294,695
Fundraising	735,234	-	735,234	571,133
Total Expenses	<u>3,071,277</u>	<u>-</u>	<u>3,071,277</u>	<u>2,674,297</u>
Change in Net Assets	645,561	594,845	1,240,406	1,174,130
Net Assets at Beginning of Year	<u>7,672,312</u>	<u>3,248,246</u>	<u>10,920,558</u>	<u>9,746,428</u>
Net Assets at End of Year	<u>\$ 8,317,873</u>	<u>\$ 3,843,091</u>	<u>\$ 12,160,964</u>	<u>\$ 10,920,558</u>

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

SANTA BARBARA RESCUE MISSION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019
(With Comparative Totals for September 30, 2018)

	Program Services					Supporting Services			Total 2019	(Memo) Total 2018
	Men's Recovery Program	Women's Recovery Program	Homeless Guest Services	Learning Center	Total	Management and General Expenses	Fundraising	Total		
Salaries	\$ 273,447	\$ 124,294	\$ 157,439	\$ 41,431	\$ 596,611	\$ 165,725	\$ 66,290	\$ 232,015	\$ 828,626	\$ 781,460
Payroll taxes	21,574	9,806	12,421	3,269	47,070	13,075	5,230	18,305	65,375	64,297
Employee benefits	107,883	49,038	62,114	16,346	235,381	65,383	26,153	91,536	326,917	336,639
Total Salaries and Related Expenses	402,904	183,138	231,974	61,046	879,062	244,183	97,673	341,856	1,220,918	1,182,396
Clothing	20,136	12,769	16,207	-	49,112	-	-	-	49,112	73,832
Donations to charities	3,772	2,357	3,017	94	9,240	94	94	188	9,428	14,060
Donor appeals	-	-	-	-	-	-	246,696	246,696	246,696	228,983
Donor appeals - consultants	-	-	-	-	-	-	372,154	372,154	372,154	243,404
Dues	3,756	1,878	-	-	5,634	13,146	-	13,146	18,780	16,601
Equipment	2,065	1,298	1,652	177	5,192	590	118	708	5,900	2,951
Equipment maintenance	15,573	9,789	12,459	1,335	39,156	4,450	890	5,340	44,496	4,420
Expendable supplies	28,309	20,221	26,691	2,426	77,647	1,618	1,618	3,236	80,883	63,087
Food	101,442	63,401	83,690	-	248,533	2,536	2,536	5,072	253,605	222,845
Information technology	14,288	10,206	13,471	1,225	39,190	816	816	1,632	40,822	34,032
Insurance	9,363	6,688	8,828	803	25,682	535	535	1,070	26,752	25,862
Interest expense	13,950	9,965	13,153	1,196	38,264	797	797	1,594	39,858	39,858
Maintenance - building	187	134	177	16	514	11	11	22	536	698
Miscellaneous	8,507	12,761	-	-	21,268	21,268	-	21,268	42,536	12,314
Office supplies	2,112	1,207	302	302	3,923	1,501	603	2,104	6,027	5,301
Postage	2,600	1,486	-	371	4,457	1,486	1,486	2,972	7,429	7,805
Printing	4,210	2,807	-	638	7,655	3,828	1,276	5,104	12,759	14,840
Professional Fees	3,512	1,756	-	-	5,268	82,533	-	82,533	87,801	44,372
Program supplies	72,985	59,214	-	5,508	137,707	-	-	-	137,707	132,470
Taxes	194	139	183	17	533	11	11	22	555	592
Telephone	3,636	2,828	-	506	6,970	2,020	1,111	3,131	10,101	8,496
Training	2,971	1,143	57	57	4,228	1,314	171	1,485	5,713	6,423
Transportation	11,840	6,954	-	-	18,794	-	-	-	18,794	14,849
Utilities	35,699	25,499	33,659	3,060	97,917	2,040	2,040	4,080	101,997	114,966
Total Expenses Before Depreciation	764,011	437,638	445,520	78,777	1,725,946	384,777	730,636	1,115,413	2,841,359	2,515,457
Depreciation expense	80,471	57,480	75,873	6,898	220,722	4,598	4,598	9,196	229,918	158,840
Total Expenses	\$ 844,482	\$ 495,118	\$ 521,393	\$ 85,675	\$ 1,946,668	\$ 389,375	\$ 735,234	\$ 1,124,609	\$ 3,071,277	
2018 Totals	\$ 797,733	\$ 492,432	\$ 438,496	\$ 79,808	\$ 1,808,469	\$ 294,695	\$ 571,133	\$ 865,828		\$ 2,674,297

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

SANTA BARBARA RESCUE MISSION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended September 30, 2019

(With Comparative Totals for September 30, 2018)

	2019	(Memo) 2018
	<u> </u>	<u> </u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,240,406	\$ 1,174,130
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	229,918	158,840
Loss on disposal of fixed assets	1,371,413	283
Changes in:		
Prepaid expenses and other assets	(471,755)	(2,509)
Pledges receivable	(188,517)	736,362
Accounts payable	(413,525)	1,158,842
Accrued payroll and related liabilities	(39,138)	6,178
Value of perpetual interest trust	(764)	97,014
Other accrued liabilities	67,079	(13,199)
Deferred revenue	1,257	440
	<u>1,796,374</u>	<u>3,316,381</u>
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities:		
Payments on note receivable	(6,830,751)	-
Purchase of fixed assets	(4,895,611)	(3,223,583)
	<u>(11,726,362)</u>	<u>(3,223,583)</u>
Net Cash Used by Investing Activities		
Cash Flows From Financing Activities:		
Proceeds from notes payable	9,722,185	-
	<u>9,722,185</u>	<u>-</u>
Net Cash Provided by Financing Activities		
Increase in Cash and Cash Equivalents	(207,803)	92,798
Cash and Cash Equivalents at Beginning of Year	<u>338,750</u>	<u>245,952</u>
Cash and Cash Equivalents at End of Year	<u>\$ 130,947</u>	<u>\$ 338,750</u>
Supplemental Disclosures:		
Cash paid for interest	<u>\$ 15,879</u>	<u>\$ 39,858</u>

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

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

The Santa Barbara Rescue Mission (SBRM) is a Christian nonprofit corporation that has operated in Santa Barbara since 1965. SBRM's primary purpose is to provide a state-licensed recovery program for men and women who are addicted to drugs and alcohol. A second purpose is to provide emergency services such as food, clothing and shelter to the homeless. A significant portion of the funding for SBRM is provided by contributions from the general public. These contributions vary in amount from year to year. SBRM also receives bequests which can be significant.

In March 2019, SBRM entered into a New Market Tax Credit (NMTC) transaction, as outlined in Internal Revenue Code (IRC) Section 45D, to help finance the construction of its new SBRM building. SBRM Support Corporation (Support Corporation) was formed in January 2019, under the laws of California in order to meet the necessary structuring requirements to qualify for the NMTC transaction. The Support Corporation holds the property to be leased back to SBRM for the sole purpose of operations and furthering its mission to aid the homeless. See Note 11 for a further discussion of the NMTC financing. The Support Corporation's revenue and net assets are summarized in the supplemental schedules.

The Mission and the Support Corporation are affiliated nonprofit organizations by virtue of the fact that they share a common board of directors. Therefore, the accompanying financial statements of these affiliated organization are presented on a consolidated basis.

Program Services

SBRM has four primary programs:

- Men's Recovery Program

The state-licensed Men's Recovery Program is a voluntary, one-year, residential program for male alcoholics and drug abusers that offers counseling, spiritual guidance, education and career development classes, recovery meetings and relapse prevention therapy. This program may not be voluntary for court ordered participants. Assistance in finding employment is provided upon completion of the program.

- Women's Recovery Program

Bethel House is a home for women in a voluntary one-year, state licensed residential drug and alcohol recovery program. The program offers counseling, spiritual guidance, education and career development classes, recovery meetings and relapse prevention therapy. Assistance in finding employment is provided upon completion of the program.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION (continued)

Program Services (continued)

- Homeless Guest Services

SBRM provides emergency services for the community's homeless men, women and children by offering hot nourishing meals, a safe place to stay, clean clothes, showers, temporary storage, as well as spiritual nourishment and Christian love.

- Learning Center

The Learning Center is an integral component of the overall recovery program. It offers to participants educational and career development classes in the areas of computer training, literacy and math, and job acquisition skills under the guidance of a professional learning specialist.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been presented on an accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

New Accounting Pronouncements

During 2019, SBRM adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

Due to the adoption of ASU 2016-14 as of September 30, 2019, net assets have been reclassified as of September 30, 2018 as follows:

Net Asset Classification 9/30/18	ASU 2016-14 Classifications		Total Net Assets
	Without Donor Restrictions	With Donor Restrictions	
Unrestricted	\$ 7,672,312	\$ -	\$ 7,672,312
Temporarily Restricted	-	2,074,575	2,074,575
Permanently Restricted	-	<u>1,173,671</u>	<u>1,173,671</u>
Net Assets as previously presented	<u>7,672,312</u>	<u>3,248,246</u>	<u>10,920,558</u>
Net assets as reported after adoption of ASU 2016-14	<u>\$ 7,672,312</u>	<u>\$ 3,248,246</u>	<u>\$ 10,920,558</u>

Description of Net Assets

SBRM reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions". Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by SBRM as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

The consolidated financial statements include the accounts of SBRM and the Support Corporation (collectively, the Mission). All material related party transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and equivalents consist of cash on hand and highly liquid investments with an original or remaining maturity of three months or less.

Restricted Cash

Restricted cash represents cash received from donors restricted to use for a long-lived asset.

Pledges Receivable

When a donor has unconditionally promised to contribute funds to the Mission in future periods, the Mission recognizes a pledge receivable. Pledges expected to be collected within one year are recorded as support and a receivable at net realizable value. Pledges expected to be collected in future years are recorded as support and a receivable at the present value of expected future cash flows. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. A provision for doubtful pledges receivable has not been established as management considers all accounts to be collectible based on favorable history over a substantial period of time.

Investment

As explained more fully in Note 6, the Mission's investment in an equity-share arrangement is reported at estimated current market value. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost or, if donated, at estimated fair market value at the date of gift. The Mission's policy is to capitalize individual assets which cost more than \$1,000 and have a useful life of greater than one year. Depreciation on these assets, except for land and construction-in-progress, is provided on a straight-line basis over their estimated useful lives, which range from 3-40 years. The Mission has self-constructed two of the buildings it now occupies.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of debt. Amortization of debt issuance costs is reflected as interest expense on the statement of activities.

Fair Value of Financial Instruments

The carrying amount of financial instruments including cash, prepaid expenses and other assets, accounts payable and accrued expenses approximated fair value as of September 30, 2019, because of the short-term nature of these items. The carrying value of both the current and non-current note payable approximates fair value as of September 30, 2019, based on the current borrowing rates for loans with similar maturities.

Deferred Revenue

Deferred revenue consists of funds received in advance for certain events. Once the Mission fulfills its obligation, the Mission will recognize the revenue.

Tax Exempt Status

SBRM and the Support Corporation are nonprofit public benefit corporations, which are exempt from income taxes under Internal Revenue Code 501(c)(3) and State of California Revenue and Taxation Code Section 23701 (d); therefore, no provision for income taxes is required. SBRM and the Support Corporation qualify for the charitable contribution deduction under Section 170 (b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1).

The Mission evaluates uncertain tax positions, where by the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of September 30, 2019, the Mission had no uncertain tax positions requiring accrual. SBRM and the Support Corporation file tax returns in California and U.S. federal jurisdictions. SBRM and the Support Corporation are no longer subject to U.S. federal and state examinations by tax authorities for years ending before September 30, 2015 and 2014, respectively.

Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Mission's financial statements for the year ended September 30, 2018, from which the summarized information was derived.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts-in-Kind

The Mission receives contributions of substantial amounts of food, clothing, equipment, miscellaneous supplies and professional services which are used in the operation of Mission programs. These contributions are reported in the financial statements as both support and as program expense. The values reported for in-kind donations are determined by using fair market values of comparable goods. The Mission also receives the support of numerous non-professional volunteers. However, no amounts have been reported for these services as they do not meet the criteria set forth under accounting principles generally accepted in the United States of America (U.S. GAAP) for nonprofit organizations.

Functional Expenses

The costs of providing various programs have been summarized by function in the Statement of Functional Expenses. Direct costs are charged directly to the appropriate program. Other costs are allocated based upon direct costs, occupancy and time spent as appropriate. The allocation is based upon current data.

Use of 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 revenues and expenses. Estimates and assumptions include, but are not limited to:

- Net realizable value of pledges receivable and allowance for uncollectible pledges
- Useful lives of capitalized assets
- Functional expense allocation
- Value of in-kind contributions received
- Value of contributions to others
- Fair market value of property held as investment

It is at least reasonably possible that the estimates used will change within the next year.

Reclassifications

Certain balances reported for the year ended September 30, 2018, have been reclassified to make the reporting comparable to the balances reported for the year ended September 30, 2019.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 3: LEASES

The Mission leases equipment for program services under operating leases. The total expense for equipment rental was \$12,445 for the year ended September 30, 2019.

Minimum future rental payments under non-cancelable operating leases for each of the following years and in the aggregate are:

Year Ending September 30,	
2020	\$ 12,455
2021	12,455
2022	12,455
2023	12,455
2024	11,135
Thereafter	<u>12,019</u>
Total	<u>\$ 72,974</u>

NOTE 4: PLEDGES RECEIVABLE

Unconditional pledges are discounted to net present value at a rate of 1% applied to the payments expected to be received in that year. Pledges receivable at September 30 are as follows:

	<u>2019</u>
Due within one year	\$ 318,185
Due in one to five years	<u>772,185</u>
Total Pledges Receivable	1,090,370
Less discount to net present value	<u>(38,415)</u>
Pledges Receivable, net	<u>\$ 1,051,955</u>

NOTE 5: NOTE RECEIVABLE

In order to facilitate the NMTC financing, the Mission made a loan (the leverage loan) to the Support Corporation in the amount of \$6,830,751, bearing interest at 1.1083% per annum. Interest-only payments are due monthly until maturity in March 2049. The note is secured by a forbearance agreement and the ownership interest in the Support Corporation. The unpaid principal balance at September 30, 2019, was \$6,830,751. See Note 11 for further discussion of the NMTC financing.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 6: INVESTMENT

During 2007, the Mission entered into an equity-share arrangement with the Mission's Executive Director to purchase a home in the Santa Barbara County area. Under the agreement, the Mission contributed \$520,000 towards the purchase of the home and retained pro rata equity in the property (see Note 20). The Mission will transfer portions of its share of any appreciation on the property to the Executive Director according to a vesting schedule laid out in the agreement, beginning in the year the property shows appreciation. The equity share percentages will also be adjusted for improvements made to the property by the Executive Director. During the year ending September 30, 2014, the equity ownership percentages were adjusted to reflect improvements made to the property by the Executive Director. At September 30, 2019, the Mission's equity ownership in the house was 48.8%.

Management has determined that the value of the real estate investment at September 30, 2019, to be below the Mission's original investment based on comparable market sales. As of September 30, 2019, the Mission has reported its share of the equity in the investment at \$425,085, reflecting a cumulative unrealized loss of \$94,915.

NOTE 7: PERPETUAL INCOME TRUST INTEREST

The Mission is named as an income beneficiary of a perpetual trust, the corpus of which is not controlled by management of the Mission. Under this arrangement, the Association has the irrevocable right to receive annual distributions of income. Distributions from the trust for the year ended September 30, 2019, totaled \$9,235. The Mission is a beneficiary of this stream of income into perpetuity and therefore the value of the underlying assets held by the trustee are recorded as an asset with donor restrictions as of September 30, 2019. The change in the value of the underlying assets held by the trustee is recorded annually as an increase or decrease in value of interest in the perpetual income trust.

NOTE 8: ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The Mission categorizes its investments according to the fair value hierarchy as either: Level 1, based on observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market; Level 2, based on quoted prices in non-active markets or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by external market data; or Level 3, based on unobservable inputs, which cannot be corroborated by external market data. As of September 30, 2019, the equity share investment arrangement with the Mission's Executive Director (see Note 6) was considered a Level 2 investment. The fair market value of the equity share investment is based on comparable market sales.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment at September 30, 2019 is as follows:

	<u>Estimated Useful Lives</u>	<u>2019</u>
Land	--	\$ 1,435,600
Building and improvements	40 years	11,432,320
Furniture and fixtures	7 years	168,684
Office equipment	3-5 years	50,539
Vehicles	5 years	55,724
Construction-in-progress		<u>532,016</u>
Total land, buildings and equipment		13,674,883
Less: accumulated depreciation		<u>(742,568)</u>
Net land, buildings and equipment		<u>\$ 12,932,315</u>

Depreciation expense for the year ended September 30, 2019, was \$229,918.

NOTE 10: LINE OF CREDIT

The Mission has an unsecured line of credit with Montecito Bank & Trust that bears interest of 5.25%. The line of credit allows for borrowings up to \$2,000,000 and has a maturity date of March 2024, at which time any unpaid principal and interest are due if the line is not renewed. The outstanding balance as of September 30, 2019, is \$700,000.

NOTE 11: NOTE PAYABLE

The Mission has a note payable to Montecito Bank & Trust for \$925,000, with interest only payments at 4.25% due monthly and total principal due at maturity. The note is due in February 2020, and is secured by a first trust deed on the 24 West Arrellaga property. The bank has issued a three-month extension to May 2020, and the Mission expects to refinance the note to a long-term note.

Note to LCD New Markets Fund XXVIII, including interest at 1.1083%; interest only payments due monthly until December 2026, monthly principal and interest payments ranging from \$71,164 to \$135,949 starting January 2027, through maturity at March 2049, secured by a Deed of Trust and assignment of leases and rents on the Support Corporation's land and building, and security agreement, loan and regulatory agreement restrict the use of the property to SBRM for the term of the note. The balance due as of September 30, 2019, is \$2,738,027.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 11: NOTE PAYABLE (continued)

Note to LCD New Markets Fund XXVIII, including interest at 1.1083%, interest only payments due monthly until December 2026, principal and interest payments ranging from \$177,539 to \$339,162 due monthly starting January 2027, until maturity at March 2049, secured by a Deed of Trust and assignment of leases and rents on the Support Corporation's land and building, and security agreement, loan and regulatory agreement restrict the use of the property to the Mission for the term of the note. The balance due as of September 30, 2019, is \$6,830,751.

Notes payable are reduced by the New Market Tax Credit unamortized debt issuance costs of \$532,236 as of September 30, 2019.

A schedule of maturities of the notes payable is as follows:

<u>Year Ending September 30,</u>	<u>Amounts</u>
2020	\$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	<u>10,661,542</u>
	<u>\$ 10,661,542</u>

NOTE 12: NEW MARKET TAX CREDIT FINANCING

In March 2019, the Mission entered into a New Market Tax Credit (NMTC) transaction to help finance the construction of the new building.

The NMTC Program was designed to stimulate investment and economic growth in low income communities by offering a seven-year, 39% federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (ODE). CDE's use capital derived from tax credits to make loans to or investments in businesses and projects in low-income areas.

To earn the tax credit, the QEI must remain invested in the CDE for a seven-year period ending in March 2026. The Mission and Chase Community Equity, LLC, have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, Chase Community Equity, LLC, can exercise a put option to sell all interest in the QEI for \$1,000 to the Mission. If the put option is not exercised, the Mission can exercise a call option to purchase the interest of the QEI at its then fair market value.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 13: INTER-FUND BORROWING

In 2007, the Mission authorized the borrowing of \$520,000 from its endowment fund and secured an investment in a second deed of trust. The Mission will repay its endowment fund upon the close of sale or other termination of its current investment.

NOTE 14: RENTAL INCOME

The Mission leases space to a wireless company in which it has installed and is operating a wireless tower. The lease is on a quarter to quarter basis with annual increases. Rental income received was \$24,578 for the year ended September 30, 2019.

NOTE 15: NON-CASH CONTRIBUTIONS

Non-cash contributions consist of the following for the years ending September 30:

	<u>2019</u>
Contributed clothing and household items, valued at estimated thrift store value	\$ 58,612
Contributed food	<u>58,201</u>
Total	<u>\$ 116,813</u>

Any unused items are donated to other nonprofit organizations, and have been recorded as donations in the amount of \$9,429 for the year ended September 30, 2019.

NOTE 16: CONCENTRATION OF CREDIT RISK

At September 30, 2019, the Federal Deposit Insurance Corporation (FDIC) insured only the first \$250,000 on deposit at any one financial institution. During the current year, the Mission has had at various times more than \$250,000 on deposit with one financial institution. The Mission had approximately \$1,383,240 in excess of the federally insured deposit limit at September 30, 2019.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 17: COMMITMENTS, CONTINGENCIES, AND RISK

As indicated in Note 12, the Support Corporation received NMTC funds to assist with financing the construction of the new building. As a part of the agreements, the Mission must maintain status as a qualified active low-income community business, as defined in IRC Section 45D. The Mission entered into an indemnification agreement with JPMorgan Chase Bank, in the event a NMTC recapture event occurs due to violation or disallowance. If such an event occurs, the Mission is liable to compensate JPMorgan Chase Bank up to the full amount of the recapture and/or lost credits, including penalties and interest. In the opinion of the Mission, no such disallowance or recapture event has occurred.

NOTE 18: EMPLOYEE BENEFIT PLAN

The Mission offers all its employees the benefits of a tax-sheltered annuity plan as described in Section 403(b) of the Internal Revenue Code. The Mission can make discretionary contributions for those who have completed one year of continuous employment. The annual contribution is generally a percentage of the employee's salary. The Mission contributed \$2,181 to the plan for the year ended September 30, 2019.

NOTE 19: DONOR RESTRICTED ENDOWMENTS

Santa Barbara Rescue Mission's endowment consists of funds with donor restrictions. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Mission has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Mission classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

A portion of the endowment fund with donor restrictions may be appropriated for expenditure by the Mission in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Mission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the endowment funds with donor restrictions, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Mission, and (7) the Mission's investment policies.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 19: DONOR RESTRICTED ENDOWMENTS (continued)

Investment Return Objectives, Risk Parameters and Strategies

The Mission has adopted investment and spending policies for the endowment assets and these policies have been approved by the Board of Directors. The Board has decided to invest funds with donor restrictions in residential real estate in the Santa Barbara area. In 2007, the Mission entered into an equity-share agreement with the Mission's Executive Director. The Mission invested \$520,000 for 54.7% ownership of a residential property. All market appreciation and depreciation are split proportionally based on ownership. As an incentive for continued employment, the Executive Director will get an increasing percentage interest in any appreciation on the investment beginning in August 2010, or upon funding any improvements (see Note 6).

From time to time, the fair value of assets associated with funds with donor restrictions may fall below the level that current law requires the Mission to retain for a fund of perpetual duration. These deficiencies are reported in the financial statements as a reduction in net assets without donor restrictions. During the year ended September 30, 2009, the investment in real estate was impaired due to declines in the real estate market. The estimated value of the investment at September 30, 2019, was \$425,085, which reflected a cumulative impairment loss of \$94,915. The Board expects the condition to be temporary, with restoration occurring through market recovery.

Endowment funds as of September 30, 2019, and changes in endowment funds for the year then ended are as follows:

Endowment net assets, September 30, 2018	\$ 1,173,671
Change in value of interest in perpetual income trust and earnings	<u>1,086</u>
Endowment net assets, September 30, 2019	<u>\$ 1,174,757</u>

NOTE 20: CONTINGENT GRANT

During the year ended September 30, 2015, the Mission entered into an agreement with a local bank and the Federal Home Loan Bank of San Francisco whereby the Mission may obtain up to \$1,500,000 in funds for its facility improvement projects. Provided the Mission complies with the terms of the agreement, which include provision of affordable housing for 15 years from the date of project completion, the funds will be considered a grant. If the Mission fails to comply with the terms of the agreement during the 15-year evaluation period, all funds disbursed will be considered a loan, due and payable, with interest. The \$1,500,000 was received during the year ended September 30, 2019.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 21: NET ASSETS

Net Assets With Donor Restrictions

As of September 30, 2019, net assets with donor restrictions consist of the following:

Endowment cash	\$ 62,457
Loan from endowment for ED House	520,000
Interest in perpetual trust	592,300
Pledges and grants receivable	1,051,955
Cash restricted for building improvements	<u>1,616,379</u>
Total Net Assets With Donor Restrictions	<u>\$ 3,843,091</u>

NOTE 22: LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of September 30, 2019:

Current assets	
Cash and cash equivalents available within one year	\$ 130,947
Pledges receivable, current portion	318,185
Other current assets	<u>133,210</u>
Total Current Assets	<u>582,342</u>
Restricted cash	1,678,836
Less restricted cash unavailable for general expenditures within one year:	
Endowed cash subject to appropriation restrictions beyond one year:	
Endowed cash	<u>(62,457)</u>
Total Investments	<u>1,616,379</u>
Current liabilities	<u>(952,893)</u>
Financial assets available to meet cash needs for general expenditures within one year as of September 30, 2019	<u>\$ 1,245,828</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 23: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 27, 2020, which is the date the financial statements were available to be issued pending final approval by the Board of Directors. Management has determined no subsequent events requiring disclosure or significantly impacting disclosure have occurred.

SUPPLEMENTAL INFORMATION

SBRM SUPPORT CORPORATION

STATEMENT OF FINANCIAL POSITION

September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,188,647	\$ -	\$ 1,188,647
Accounts receivable	49,167	-	49,167
Deferred rent	112,803	-	112,803
Total Current Assets	<u>1,350,617</u>	<u>-</u>	<u>1,350,617</u>
Property and Equipment:			
Land	4,975,000	-	4,975,000
Building and improvements	10,411,894	-	10,411,894
	<u>15,386,894</u>	<u>-</u>	<u>15,386,894</u>
Less: Accumulated depreciation	<u>(48,585)</u>	<u>-</u>	<u>(48,585)</u>
Net Property and Equipment	<u>15,338,309</u>	<u>-</u>	<u>15,338,309</u>
Total Assets	<u>\$ 16,688,926</u>	<u>\$ -</u>	<u>\$ 16,688,926</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts payable	\$ 741,442	\$ -	\$ 741,442
Accrued liabilities	64,504	-	64,504
Total Current Liabilities	<u>805,946</u>	<u>-</u>	<u>805,946</u>
Non-Current Liabilities:			
Notes payable	9,036,542	-	9,036,542
Total Liabilities	<u>9,842,488</u>	<u>-</u>	<u>9,842,488</u>
Net Assets			
Without Donor Restrictions	6,846,438	-	6,846,438
With Donor Restrictions	-	-	-
Total Net Assets	<u>6,846,438</u>	<u>-</u>	<u>6,846,438</u>
Total Liabilities and Net Assets	<u>\$ 16,688,926</u>	<u>\$ -</u>	<u>\$ 16,688,926</u>

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

SBRM SUPPORT CORPORATION

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Support and Revenue			
Gifts and grants	\$ 6,751,201	\$ -	\$ 6,751,201
Rental income	161,970	-	161,970
Interest income	7,803	-	7,803
Net assets released from restriction	-	-	-
	<u>6,920,974</u>	<u>-</u>	<u>6,920,974</u>
Total Support and Revenue			
Expenses			
Program Expenses:			
Interest expense	15,880	-	15,880
CDE expenses	9,967	-	9,967
Debt issuance costs	9	-	9
Depreciation	48,585	-	48,585
	<u>74,441</u>	<u>-</u>	<u>74,441</u>
Total Program Expenses			
Management and general	95	-	95
Fundraising	-	-	-
	<u>74,536</u>	<u>-</u>	<u>74,536</u>
Total Expenses			
Change in Net Assets	6,846,438	-	6,846,438
Net Assets at Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 6,846,438</u>	<u>\$ -</u>	<u>\$ 6,846,438</u>

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