

**SANTA BARBARA RESCUE MISSION
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

SANTA BARBARA RESCUE MISSION

September 30, 2021

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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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, 2021, 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, 2021, 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, 2020, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated May 6, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

March 3, 2022

SANTA BARBARA RESCUE MISSION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2021
 (With Comparative Totals for September 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	(Memo) Total 2020
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 644,958	\$ -	\$ 644,958	\$ 838,276
Prepaid expenses and other assets	101,074	-	101,074	82,357
Pledges receivable - current portion	-	100,000	100,000	145,650
Other receivables	79,060	-	79,060	79,058
Total Current Assets	825,092	100,000	925,092	1,145,341
Other Assets:				
Restricted cash	-	842,877	842,877	792,381
Pledges receivable - net of current portion	-	479,548	479,548	570,459
Investment	1,320,711	603,125	1,923,836	299,559
Investment in perpetual income trust	-	557,815	557,815	537,208
Loan receivable	6,830,751	-	6,830,751	6,830,751
Land, buildings, and equipment, net	12,625,261	-	12,625,261	12,780,444
Due (to)/from other fund	(250,000)	250,000	-	-
Total Assets	\$ 21,351,815	\$ 2,833,365	\$ 24,185,180	\$ 22,956,143
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 158,721	\$ -	\$ 158,721	\$ 36,353
Accrued payroll and related liabilities	100,862	-	100,862	50,172
Other accrued liabilities	117,185	-	117,185	117,267
Deferred revenue	-	-	-	23,116
Notes payable, current portion	8,678	-	8,678	263,695
Total Current Liabilities	385,446	-	385,446	490,603
Non-Current Liabilities:				
Notes payable, less current portion	9,497,445	-	9,497,445	9,485,289
Total Liabilities	9,882,891	-	9,882,891	9,975,892
Net Assets				
Without Donor Restrictions	11,468,924	-	11,468,924	10,414,553
With Donor Restrictions	-	2,833,365	2,833,365	2,565,698
Total Net Assets	11,468,924	2,833,365	14,302,289	12,980,251
Total Liabilities and Net Assets	\$ 21,351,815	\$ 2,833,365	\$ 24,185,180	\$ 22,956,143

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, 2021

(With Comparative Totals for September 30, 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2021</u>	<u>(Memo) Total 2020</u>
Support and Revenue				
Gifts and grants	\$ 2,831,510	\$ 320,563	\$ 3,152,073	\$ 2,556,042
Federal grant (PPP loan forgiveness)	255,328	-	255,328	-
Special events, net of expenses of \$24,365	554,268	-	554,268	465,893
Bequests	76,762	-	76,762	644,815
Rental income	151,524	-	151,524	73,471
Non-cash contributions	109,111	-	109,111	192,908
Fee income	94,404	-	94,404	79,436
Miscellaneous income	379,274	-	379,274	262,421
Perpetual interest trust income	28,851	-	28,851	7,347
Investment income	50,247	12,562	62,809	2,338
Change in value of interest in perpetual trust	20,607	-	20,607	(55,092)
Net assets released from restriction	65,458	(65,458)	-	-
Total Support and Revenue	<u>4,617,344</u>	<u>267,667</u>	<u>4,885,011</u>	<u>4,229,579</u>
Expenses				
Program Expenses:				
Men's recovery program	1,048,856	-	1,048,856	1,008,245
Women's recovery program	506,330	-	506,330	527,501
Homeless guest services	677,318	-	677,318	619,033
Learning center	57,662	-	57,662	46,848
Total Program Expenses	<u>2,290,166</u>	<u>-</u>	<u>2,290,166</u>	<u>2,201,627</u>
Management and general	759,315	-	759,315	732,268
Fundraising	513,492	-	513,492	476,397
Total Expenses	<u>3,562,973</u>	<u>-</u>	<u>3,562,973</u>	<u>3,410,292</u>
Change in Net Assets	1,054,371	267,667	1,322,038	819,287
Net Assets at Beginning of Year	<u>10,414,553</u>	<u>2,565,698</u>	<u>12,980,251</u>	<u>12,160,964</u>
Net Assets at End of Year	<u><u>\$ 11,468,924</u></u>	<u><u>\$ 2,833,365</u></u>	<u><u>\$ 14,302,289</u></u>	<u><u>\$ 12,980,251</u></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, 2021

(With Comparative Totals for September 30, 2020)

	Program Services					Supporting Services			Total 2021	(Memo) Total 2020
	Men's Recovery Program	Women's Recovery Program	Homeless Guest Services	Learning Center	Total	Management and General Expenses	Fundraising	Total		
Salaries	\$ 371,106	\$ 197,706	\$ 145,150	\$ -	\$ 713,962	\$ 248,991	\$ 82,997	\$ 331,988	\$ 1,045,950	\$ 935,048
Payroll taxes	27,328	14,690	10,920	-	52,938	11,289	3,763	15,052	67,990	66,319
Employee benefits	101,943	56,781	117,237	-	275,961	124,260	41,483	165,743	441,704	385,655
Total Salaries and Related Expenses	500,377	269,177	273,307	-	1,042,861	384,540	128,243	512,783	1,555,644	1,387,022
Clothing	1,093	44	1,793	1,443	4,373	-	-	-	4,373	73,201
Donations to charities	6,193	248	10,157	8,175	24,773	-	-	-	24,773	12,918
Donor appeals	-	-	-	-	-	-	293,359	293,359	293,359	267,784
Donor appeals - consultants	-	-	-	-	-	-	54,000	54,000	54,000	64,947
Dues	-	-	-	-	-	33,928	-	33,928	33,928	31,396
Equipment	1,126	896	443	403	2,868	395	-	395	3,263	3,675
Equipment maintenance	960	1,014	-	-	1,974	1,266	-	1,266	3,240	19,056
Expendable supplies	56,176	9,300	23,874	1,832	91,182	122	-	122	91,304	74,853
Food	138,560	26,244	93,250	-	258,054	-	-	-	258,054	292,056
Information technology	16,120	10,239	9,342	1,384	37,085	19,361	-	19,361	56,446	49,545
Insurance	14,458	8,566	7,227	894	31,145	13,995	-	13,995	45,140	37,963
Interest expense	-	-	-	-	-	191,421	-	191,421	191,421	183,117
Maintenance - building	8,332	1,009	1,984	1,547	12,872	227	-	227	13,099	266
Miscellaneous	1,365	1,770	159	103	3,397	5,181	5,784	10,965	14,362	47,818
Office supplies	8,236	2,881	14,465	879	26,461	5,294	-	5,294	31,755	22,023
Postage	5	8	-	-	13	8,559	7,647	16,206	16,219	6,810
Printing	3,269	1,937	1,650	214	7,070	3,101	-	3,101	10,171	14,380
Professional Fees	5,279	7,622	10,625	2,306	25,832	59,137	-	59,137	84,969	68,147
Program supplies	39,701	28,773	44,069	190	112,733	683	-	683	113,416	113,266
Taxes	-	-	-	-	-	1,110	-	1,110	1,110	621
Telephone	2,697	3,591	1,505	357	8,150	3,375	13,384	16,759	24,909	18,401
Training	1,782	146	536	9	2,473	2,873	2,049	4,922	7,395	3,353
Transportation	13,849	1,417	116	-	15,382	9,923	-	9,923	25,305	21,896
Utilities	71,324	18,624	33,889	24,387	148,224	5,798	-	5,798	154,022	158,062
Total Expenses Before Depreciation	890,902	393,506	528,391	44,123	1,856,922	750,289	504,466	1,254,755	3,111,677	2,972,576
Depreciation expense	157,954	112,824	148,927	13,539	433,244	9,026	9,026	18,052	451,296	437,716
Total Expenses	\$ 1,048,856	\$ 506,330	\$ 677,318	\$ 57,662	\$ 2,290,166	\$ 759,315	\$ 513,492	\$ 1,272,807	\$ 3,562,973	
2020 Totals	\$ 1,008,245	\$ 527,501	\$ 619,033	\$ 46,848	\$ 2,201,627	\$ 732,268	\$ 476,397	\$ 1,208,665		\$ 3,410,292

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, 2021

(With Comparative Totals for September 30, 2020)

	2021	(Memo) 2020
	<u> </u>	<u> </u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,322,038	\$ 819,287
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Cash contributions restricted for long-term purposes	(320,563)	-
Depreciation	451,296	437,716
Unrealized change in value of investments	(40,072)	-
Realized change in value of investments	(703)	125,526
Reduction in debt issuance costs	20,933	20,643
Debt forgiveness	(255,328)	-
Changes in:		
Prepaid expenses and other assets	(18,719)	858,250
Pledges receivable	136,561	335,846
Accounts payable	122,368	(770,628)
Accrued payroll and related liabilities	50,690	2,836
Value of perpetual interest trust	(20,607)	55,092
Other accrued liabilities	(50,578)	44,088
Deferred revenue	(23,116)	(2,281)
Net Cash Provided by Operating Activities	<u>1,374,200</u>	<u>1,926,375</u>
Cash Flows From Investing Activities:		
Purchase of investments	(1,650,852)	-
Proceeds from sale of investments	67,350	-
Purchase of fixed assets	(296,113)	(285,845)
Net Cash Used by Investing Activities	<u>(1,879,615)</u>	<u>(285,845)</u>
Cash Flows From Financing Activities:		
Cash contributions restricted for long-term purposes	320,563	-
Proceeds from notes payable	-	255,328
Payments on note payable	(8,466)	(1,188,529)
Net Cash Used by Financing Activities	<u>312,097</u>	<u>(933,201)</u>
Increase (decrease) in Cash and Cash Equivalents	(193,318)	707,329
Cash and Cash Equivalents at Beginning of Year	<u>838,276</u>	<u>130,947</u>
Cash and Cash Equivalents at End of Year	<u>\$ 644,958</u>	<u>\$ 838,276</u>
Supplemental Disclosures:		
Cash paid for interest	<u>\$ 17,707</u>	<u>\$ 56,412</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.

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".

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

With Donor Restrictions (continued)

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).

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 7, the Mission's investments include 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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment (continued)

Investments in marketable equity and debt funds are stated at market value. All gains and losses on investments are reported as increases or decreases to unrestricted net assets unless required by donors to be reinvested in restricted net assets. As a result of the reporting investments at market value the Mission reports changes in market values on a portfolio basis as unrealized gains or losses. In years where investments are sold the realized gains or losses are reported and the changes in unrealized gains or losses on a portfolio basis is also reported.

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.

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.

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, 2021, 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, 2017 and 2016, respectively.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021, 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, 2021, based on the current borrowing rates for loans with similar maturities.

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, 2020, from which the summarized information was derived.

Reclassifications

Certain balances reported for the year ended September 30, 2020, have been reclassified to make the reporting comparable to the balances reported for the year ended September 30, 2021.

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, 2020, from which the summarized information was derived.

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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2021.

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

Year Ending September 30,	
2022	\$ 12,455
2023	12,455
2024	11,135
2025	8,495
2026	3,535
Thereafter	-
Total	<u>\$ 48,075</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

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:

	2021
Due within one year	\$ 100,000
Due in one to five years	500,000
Total Pledges Receivable	600,000
Less discount to net present value	(20,452)
Pledges Receivable, net	\$ 579,548

NOTE 5: NOTE RECEIVABLE

In order to facilitate the NMTC financing, the Mission made a loan (the leverage loan) to Chase SBRM Investment Fund in the amount of \$6,830,751, bearing interest at 1.5431% per annum. Interest-only payments are due annually until December 2025. Starting December 2026, principal and interest payments are due until maturity in March 2047. The note is secured by a forbearance agreement and the ownership interest in the Support Corporation. The unpaid principal balance at September 30, 2021, was \$6,830,751. See Note 10 for further discussion of the NMTC financing. (See notes 10 and 11)

NOTE 6: LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment at September 30, 2021, is as follows:

	Estimated Useful Lives	2021
Land	--	\$ 1,435,600
Building and improvements	40 years	11,847,062
Furniture and fixtures	7 years	590,573
Office equipment	3-5 years	320,810
Vehicles	5 years	55,724
Total land, buildings and equipment		14,249,769
Less: accumulated depreciation		(1,624,508)
Net land, buildings and equipment		\$ 12,625,261

Depreciation expense for the year ended September 30, 2021, was \$451,296.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 7: 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. During the year ending September 30, 2020, the Executive Director made a payment of \$270,000 to increase his equity share of the home. At September 30, 2021, the Mission’s equity ownership in the house was 27.983% and has reported its share of the equity in the investment at \$299,559.

Investments are presented in the financial statements at fair market value, which is derived from quoted market prices at year end. At September 30, 2021, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Cash held for investment	\$ 22,763	\$ 22,763	\$ -
Mutual funds – equities	280,912	285,962	5,050
Mutual funds – bonds	191,675	194,692	3,017
ETP – equities	815,566	846,410	30,844
ETP – bonds	273,289	274,450	1,161
Real estate investment	<u>299,559</u>	<u>299,559</u>	<u>-</u>
	<u>\$ 1,883,764</u>	<u>\$ 1,923,836</u>	<u>\$ 40,072</u>

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Balance at end of year	\$ 1,883,764	\$ 1,923,836	\$ 40,072
Balance at beginning of the year	299,559	299,559	<u>-</u>
			<u>\$ 40,072</u>

Investment income for September 30 is as follows:

Interest and dividend income	\$ 22,034
Unrealized gain on value of securities	40,072
Realized gain on value of securities	<u>703</u>
Net Investment Income	<u>\$ 62,809</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 8: 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, 2021, totaled \$28,851. 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, 2021. 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 9: FAIR VALUE MEASUREMENT

The Mission has established a framework for measuring fair value and expanding disclosures about fair value measurements. Accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;
- Level 3: Unobservable inputs that are supported by little or no market activity;

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. As of September 30, 2021, there were no Level 2 or Level 3 investments.

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Cash held for investment – Cash held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: FAIR VALUE MEASUREMENT (continued)

Fixed income – Corporate bonds and bond funds provide a hedge against deflation, provide a stable return, and serve to minimize the overall volatility of the investment portfolio. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Equities – Equities include a variety of publicly traded stocks and mutual funds from various industries invested for both growth and value. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at September 30, 2021:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 22,763	\$ -	\$ -	\$ 22,763
Fixed Income				
Mutual fund - bonds	194,692			194,692
ETP - bonds	<u>274,450</u>	-	-	<u>274,450</u>
Total Fixed Income	<u>469,142</u>	-	-	<u>469,142</u>
Equities				
Mutual fund - equities	285,962	-	-	285,962
ETP - equities	<u>846,410</u>	-	-	<u>846,410</u>
Total Equities	<u>1,132,372</u>	-	-	<u>1,132,372</u>
Real estate investment	<u>299,559</u>	-	-	<u>299,559</u>
Total assets measured at fair value	<u>\$ 1,923,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,923,836</u>

NOTE 10: NOTE PAYABLE

The Mission has a note payable to Montecito Bank & Trust for \$436,669, with interest of 3.65% and monthly payments of \$2,013. The note is due in August 2030, and is secured by a first trust deed on the 24 West Arrellaga property. The outstanding balance as of September 30, 2021, is \$428,005.

Note to LCD New Markets Fund XXVIII, Note A, including interest at 1.1083%, interest only payments due annually until December 2026, principal and interest payments ranging from \$177,539 to \$339,162 due annually starting January 2026, 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, 2021, is \$6,830,751.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 10: NOTE PAYABLE (continued)

Note to LCD New Markets Fund XXVIII, Note B, including interest at 1.1083%; interest only payments due annually until December 2026, principal and interest payments ranging from \$71,164 to \$135,949 due annually starting January 2026, 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, 2021, is \$2,738,027.

Notes payable are reduced by the New Market Tax Credit unamortized debt issuance costs of \$490,660 as of September 30, 2021.

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

<u>Year Ending September 30,</u>	<u>Amounts</u>
2022	\$ 8,678
2023	9,000
2024	9,334
2025	9,681
2026	10,000
Thereafter	<u>9,459,430</u>
	<u>\$ 9,506,123</u>

NOTE 11: 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 (CDE). 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 12: 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. In 2020 the Mission paid back \$270,000 to the endowment fund, leaving a balance outstanding of \$250,000 as of September 30, 2021 and 2020. The Mission will repay its endowment fund upon the close of sale or other termination of its current investment.

NOTE 13: 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 \$25,114 for the year ended September 30, 2021.

NOTE 14: NON-CASH CONTRIBUTIONS

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

	<u>2021</u>
Contributed clothing and household items, valued at estimated thrift store value	\$ 29,145
Contributed food	<u>79,966</u>
Total	<u>\$ 109,111</u>

Any unused items are donated to other nonprofit organizations, and have been recorded as donations in the amount of \$24,773 for the year ended September 30, 2021.

NOTE 15: CONCENTRATION OF CREDIT RISK

At September 30, 2021, 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 \$591,000 in excess of the federally insured deposit limit at September 30, 2021.

NOTE 16: COMMITMENTS, CONTINGENCIES, AND RISK

As indicated in Note 11, 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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 17: 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 \$37,420 to the plan for the year ended September 30, 2021.

NOTE 18: 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.

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 7).

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 18: DONOR RESTRICTED ENDOWMENTS (continued)

Endowment funds as of September 30, 2021, and changes in endowment funds for the year then ended are as follows:

Endowment net assets, September 30, 2020	\$	1,057,208
Contributions		320,563
Earnings		12,562
Change in value of interest in perpetual income trust		<u>20,607</u>
Endowment net assets, September 30, 2021	\$	<u>1,410,940</u>

NOTE 19: 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.

NOTE 20: NET ASSETS

Net Assets With Donor Restrictions

As of September 30, 2021, net assets with donor restrictions consist of the following:

Loan from endowment for ED House	\$	250,000
Interest in perpetual trust		557,815
Pledges and grants receivable		579,548
Cash restricted for building improvements		842,877
Endowment assets		<u>603,125</u>
Total Net Assets With Donor Restrictions	\$	<u>2,833,365</u>

NOTE 21: 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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 21: LIQUIDITY (continued)

Financial assets available to meet cash needs for general expenditures within one year as of September 30, 2021:

Current assets	
Cash and cash equivalents available within one year	\$ 644,958
Pledges receivable, current portion	100,000
Other current assets	<u>180,134</u>
Total Current Assets	<u>925,092</u>
Investments and restricted cash	2,766,713
Less investments and restricted cash unavailable for general expenditures within one year:	
Investments and restricted cash subject to appropriation restrictions beyond one year	<u>(603,125)</u>
Total Investments and restricted cash	<u>2,163,588</u>
Current liabilities	<u>(385,446)</u>
Financial assets available to meet cash needs for general expenditures within one year as of September 30, 2021	<u>\$ 2,703,234</u>

NOTE 22: SBA LOAN UNDER PAYCHECK PROTECTION PROGRAM

On April 14, 2020, the Mission received loan funding of \$255,328 under the Paycheck Protection Program as allowed under the CARES Tax Act, related to the 2020 COVID-19 pandemic. The loan allows for the loan proceeds to be used on allowable costs for the Mission. The loan has been forgiven in full. Accordingly, the Mission has recorded the loan as federal grant income for the year ended September 30, 2021.

NOTE 23: RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of March 3, 2022, the Mission's operations remain open.

NOTE 24: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 3, 2022, 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, 2021

(With Comparative Totals for September 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	(Memo) Total 2020
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 307,107	\$ -	\$ 307,107	\$ 365,521
Accounts receivable	88,500	-	88,500	88,500
Deferred rent	654,261	-	654,261	383,532
Total Current Assets	1,049,868	-	1,049,868	837,553
Property and Equipment:				
Land	4,975,000	-	4,975,000	4,975,000
Building and improvements	10,457,147	-	10,457,147	10,438,580
	15,432,147	-	15,432,147	15,413,580
Less: Accumulated depreciation	(690,350)	-	(690,350)	(367,002)
Net Property and Equipment	14,741,797	-	14,741,797	15,046,578
Total Assets	<u>\$ 15,791,665</u>	<u>\$ -</u>	<u>\$ 15,791,665</u>	<u>\$ 15,884,131</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	79,538	-	79,538	79,538
Total Current Liabilities	79,538	-	79,538	79,538
Non-Current Liabilities:				
Notes payable	9,078,118	-	9,078,118	9,057,185
Total Liabilities	9,157,656	-	9,157,656	9,136,723
Net Assets				
Without Donor Restrictions	6,634,009	-	6,634,009	6,747,408
With Donor Restrictions	-	-	-	-
Total Net Assets	6,634,009	-	6,634,009	6,747,408
Total Liabilities and Net Assets	<u>\$ 15,791,665</u>	<u>\$ -</u>	<u>\$ 15,791,665</u>	<u>\$ 15,884,131</u>

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

SBRM SUPPORT CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

(With Comparative Totals for September 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	(Memo) Total 2020
Support and Revenue				
Gifts and grants	\$ -	\$ -	\$ -	\$ -
Rental income	388,729	-	388,729	388,729
Interest income	60	-	60	2,288
Net assets released from restriction	-	-	-	-
Total Support and Revenue	388,789	-	388,789	391,017
Expenses				
Program Expenses:				
Interest expense	106,051	-	106,051	106,051
CDE expenses	46,730	-	46,730	39,870
Debt issuance costs	20,933	-	20,933	20,643
Depreciation	323,348	-	323,348	318,417
Total Program Expenses	497,062	-	497,062	484,981
Management and general	5,126	-	5,126	5,066
Fundraising	-	-	-	-
Total Expenses	502,188	-	502,188	490,047
Change in Net Assets	(113,399)	-	(113,399)	(99,030)
Net Assets at Beginning of Year	6,747,408	-	6,747,408	6,846,438
Net Assets at End of Year	\$ 6,634,009	\$ -	\$ 6,634,009	\$ 6,747,408

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