

**SANTA BARBARA RESCUE MISSION
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

SANTA BARBARA RESCUE MISSION

September 30, 2022

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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

Opinion

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, 2022, 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.

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, 2022, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Barbara Rescue Mission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Barbara Rescue Mission's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

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, 2021, consolidated financial statements, and we expressed an unmodified audit opinion on those statements in our report dated March 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

McGowan Muntermann

Santa Barbara, California
March 20, 2023

SANTA BARBARA RESCUE MISSION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022

(With Comparative Totals for September 30, 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2022</u>	<u>(Memo) Total 2021</u>
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 544,618	\$ -	\$ 544,618	\$ 644,958
Prepaid expenses and other assets	147,149	-	147,149	101,074
Pledges receivable - current portion	-	100,000	100,000	100,000
Other receivables	79,063	-	79,063	79,060
Total Current Assets	<u>770,830</u>	<u>100,000</u>	<u>870,830</u>	<u>925,092</u>
Other Assets:				
Restricted cash	-	261,554	261,554	842,877
Pledges receivable - net of current portion	-	384,401	384,401	479,548
Investment	2,000,239	535,058	2,535,297	1,923,836
Investment in perpetual income trust	-	449,593	449,593	557,815
Loan receivable	6,830,751	-	6,830,751	6,830,751
Land, buildings, and equipment, net	12,368,697	-	12,368,697	12,625,261
Due (to)/from other fund	(250,000)	250,000	-	-
Total Assets	<u>\$ 21,720,517</u>	<u>\$ 1,980,606</u>	<u>\$ 23,701,123</u>	<u>\$ 24,185,180</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 141,194	\$ -	\$ 141,194	\$ 158,721
Accrued payroll and related liabilities	71,460	-	71,460	100,862
Other accrued liabilities	97,551	-	97,551	117,185
Notes payable, current portion	9,000	-	9,000	8,678
Total Current Liabilities	<u>319,205</u>	<u>-</u>	<u>319,205</u>	<u>385,446</u>
Non-Current Liabilities:				
Notes payable, less current portion	9,510,184	-	9,510,184	9,497,445
Total Liabilities	<u>9,829,389</u>	<u>-</u>	<u>9,829,389</u>	<u>9,882,891</u>
Net Assets				
Without Donor Restrictions	11,891,128	-	11,891,128	11,468,924
With Donor Restrictions	-	1,980,606	1,980,606	2,833,365
Total Net Assets	<u>11,891,128</u>	<u>1,980,606</u>	<u>13,871,734</u>	<u>14,302,289</u>
Total Liabilities and Net Assets	<u>\$ 21,720,517</u>	<u>\$ 1,980,606</u>	<u>\$ 23,701,123</u>	<u>\$ 24,185,180</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, 2022

(With Comparative Totals for September 30, 2021)

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>(Memo)</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2022</u>	<u>Total</u>
				<u>2021</u>
Support and Revenue				
Gifts and grants	\$ 2,941,851	\$ -	\$ 2,941,851	\$ 3,152,073
Federal grant (PPP loan forgiveness)	-	-	-	255,328
Special events, net of expenses of \$58,831	476,169	-	476,169	554,268
Bequests	92,551	-	92,551	76,762
Rental income	241,905	-	241,905	151,524
Non-cash contributions	228,171	-	228,171	109,111
Fee income	129,809	-	129,809	94,404
Miscellaneous income	119,303	-	119,303	379,274
Perpetual interest trust income	36,272	-	36,272	28,851
Investment income	(259,638)	(68,067)	(327,705)	62,809
Change in value of interest in perpetual trust	(108,222)	-	(108,222)	20,607
Net assets released from restriction	784,692	(784,692)	-	-
Total Support and Revenue	<u>4,682,863</u>	<u>(852,759)</u>	<u>3,830,104</u>	<u>4,885,011</u>
Expenses				
Program Expenses:				
Men's recovery program	1,318,732	-	1,318,732	1,048,856
Women's recovery program	655,376	-	655,376	506,330
Homeless guest services	866,672	-	866,672	677,318
Learning center	61,545	-	61,545	57,662
Total Program Expenses	<u>2,902,325</u>	<u>-</u>	<u>2,902,325</u>	<u>2,290,166</u>
Management and general	801,137	-	801,137	759,315
Fundraising	557,197	-	557,197	513,492
Total Expenses	<u>4,260,659</u>	<u>-</u>	<u>4,260,659</u>	<u>3,562,973</u>
Change in Net Assets	422,204	(852,759)	(430,555)	1,322,038
Net Assets at Beginning of Year	<u>11,468,924</u>	<u>2,833,365</u>	<u>14,302,289</u>	<u>12,980,251</u>
Net Assets at End of Year	<u>\$ 11,891,128</u>	<u>\$ 1,980,606</u>	<u>\$ 13,871,734</u>	<u>\$ 14,302,289</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, 2022

(With Comparative Totals for September 30, 2021)

	Program Services					Supporting Services			Total 2022	(Memo) Total 2021
	Men's Recovery Program	Women's Recovery Program	Homeless Guest Services	Learning Center	Total	Management and General Expenses	Fundraising	Total		
Salaries	\$ 472,737	\$ 279,437	\$ 233,886	\$ -	\$ 986,060	\$ 230,510	\$ 48,233	\$ 278,743	\$ 1,264,803	\$ 1,045,950
Payroll taxes	37,355	22,147	16,534	-	76,036	14,623	3,617	18,240	94,276	67,990
Employee benefits	120,362	75,646	131,620	-	327,628	154,711	37,500	192,211	519,839	441,704
Total Salaries and Related Expenses	630,454	377,230	382,040	-	1,389,724	399,844	89,350	489,194	1,878,918	1,555,644
Clothing	9,987	3,841	5,378	-	19,206	-	-	-	19,206	4,373
Donations to charities	1,762	678	949	-	3,389	-	-	-	3,389	24,773
Donor appeals	-	-	-	-	-	-	384,180	384,180	384,180	293,359
Donor appeals - consultants	-	-	-	-	-	-	54,000	54,000	54,000	54,000
Dues	-	-	-	-	-	44,862	-	44,862	44,862	33,928
Equipment	1,980	98	1,771	293	4,142	321	-	321	4,463	3,263
Equipment maintenance	960	1,841	-	605	3,406	124	-	124	3,530	3,240
Expendable supplies	2,916	5,280	13,017	4,175	25,388	155	-	155	25,543	91,304
Food	218,464	46,763	165,787	268	431,282	-	-	-	431,282	258,054
Information technology	17,540	10,171	8,681	989	37,381	23,030	-	23,030	60,411	56,446
Insurance	14,568	8,650	7,284	910	31,412	14,107	-	14,107	45,519	45,140
Interest expense	-	-	-	-	-	193,781	-	193,781	193,781	191,421
Maintenance - building	56,314	22,439	8,433	4,673	91,859	279	-	279	92,138	13,099
Miscellaneous	146	-	61	-	207	11,446	135	11,581	11,788	14,362
Office supplies	2,906	3,646	2,784	1,073	10,409	6,194	-	6,194	16,603	31,755
Postage	-	36	11	-	47	7,125	9,164	16,289	16,336	16,219
Printing	3,499	2,078	1,689	279	7,545	3,390	-	3,390	10,935	10,171
Professional Fees	4,800	3,788	8,683	300	17,571	60,207	-	60,207	77,778	84,969
Program supplies	105,613	36,817	78,947	1,533	222,910	-	-	-	222,910	113,416
Taxes	-	-	-	-	-	1,359	-	1,359	1,359	1,110
Telephone	5,153	2,620	3,024	2,646	13,443	2,238	9,092	11,330	24,773	24,909
Training	692	2,382	1,036	-	4,110	7,046	2,840	9,886	13,996	7,395
Transportation	14,831	964	105	-	15,900	10,284	-	10,284	26,184	25,305
Utilities	78,526	20,611	37,808	31,148	168,093	6,910	-	6,910	175,003	154,022
Total Expenses Before Depreciation	1,171,111	549,933	727,488	48,892	2,497,424	792,702	548,761	1,341,463	3,838,887	3,111,677
Depreciation expense	147,621	105,443	139,184	12,653	404,901	8,435	8,436	16,871	421,772	451,296
Total Expenses	\$ 1,318,732	\$ 655,376	\$ 866,672	\$ 61,545	\$ 2,902,325	\$ 801,137	\$ 557,197	\$ 1,358,334	\$ 4,260,659	
2021 Totals	\$ 1,048,856	\$ 506,330	\$ 677,318	\$ 57,662	\$ 2,290,166	\$ 759,315	\$ 513,492	\$ 1,272,807		\$ 3,562,973

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, 2022

(With Comparative Totals for September 30, 2021)

	<u>2022</u>	<u>(Memo)</u> <u>2021</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (430,555)	\$ 1,322,038
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Cash contributions restricted for long-term purposes	-	(320,563)
Depreciation	421,772	451,296
Unrealized change in value of investments	372,433	(40,072)
Realized change in value of investments	23,568	(703)
Reduction in debt issuance costs	21,226	20,933
Debt forgiveness	-	(255,328)
Changes in:		
Prepaid expenses and other assets	(46,078)	(18,719)
Pledges receivable	95,147	136,561
Accounts payable	(17,527)	122,368
Accrued payroll and related liabilities	(29,402)	50,690
Value of perpetual interest trust	108,222	(20,607)
Other accrued liabilities	(19,634)	(50,578)
Deferred revenue	-	(23,116)
Net Cash Provided by Operating Activities	<u>499,172</u>	<u>1,374,200</u>
Cash Flows From Investing Activities:		
Purchase of investments	(599,764)	(1,650,852)
Proceeds from sale of investments	173,625	67,350
Purchase of fixed assets	<u>(165,208)</u>	<u>(296,113)</u>
Net Cash Used by Investing Activities	<u>(591,347)</u>	<u>(1,879,615)</u>
Cash Flows From Financing Activities:		
Cash contributions restricted for long-term purposes	-	320,563
Payments on note payable	<u>(8,165)</u>	<u>(8,466)</u>
Net Cash Provided (Used) by Financing Activities	<u>(8,165)</u>	<u>312,097</u>
Decrease in Cash and Cash Equivalents	(100,340)	(193,318)
Cash and Cash Equivalents at Beginning of Year	<u>644,958</u>	<u>838,276</u>
Cash and Cash Equivalents at End of Year	<u>\$ 544,618</u>	<u>\$ 644,958</u>
Supplemental Disclosures:		
Cash paid for interest	<u>\$ 15,995</u>	<u>\$ 17,707</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 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. SBRM also offers case management services to our homeless guests that seek to be housed.

- 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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

With Donor Restrictions (continued)

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated 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).

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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2022, 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, 2018 and 2017, 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, 2022, 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, 2022, 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, 2021, from which the summarized information was derived.

Reclassifications

Certain balances reported for the year ended September 30, 2021, have been reclassified to make the reporting comparable to the balances reported for the year ended September 30, 2022.

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.

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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022.

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

Year Ending September 30,	
2023	\$ 12,455
2024	11,135
2025	8,495
2026	3,535
Thereafter	-
Total	<u>\$ 35,620</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>2022</u>
Due within one year	\$ 100,000
Due in one to five years	<u>400,000</u>
Total Pledges Receivable	500,000
Less discount to net present value	<u>(15,599)</u>
Pledges Receivable, net	<u>\$ 484,401</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

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, 2022, 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, 2022, is as follows:

	Estimated Useful Lives	2022
Land	--	\$ 1,435,600
Building and improvements	40 years	11,921,868
Furniture and fixtures	7 years	570,968
Office equipment	3-5 years	483,209
Vehicles	5 years	55,724
 Total land, buildings and equipment		 14,467,369
 Less: accumulated depreciation		 (2,098,672)
 Net land, buildings and equipment		 \$ 12,368,697

Depreciation expense for the year ended September 30, 2022, was \$421,772.

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, 2022, 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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 7: INVESTMENT (Continued)

Investments are presented in the financial statements at fair market value, which is derived from quoted market prices at year end. At September 30, 2022, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash held for investment	\$ 31,641	\$ 31,641	\$ -
Mutual funds – equities	670,120	634,168	(35,952)
Mutual funds – bonds	183,569	160,395	(23,174)
ETP – equities	1,218,023	1,007,828	(210,195)
ETP – bonds	464,746	401,706	(63,040)
Real estate investment	<u>299,559</u>	<u>299,559</u>	<u>-</u>
	<u>\$ 2,867,658</u>	<u>\$ 2,535,297</u>	<u>\$ (332,361)</u>

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Balance at end of year	\$ 2,867,658	\$ 2,535,297	\$ (332,361)
Balance at beginning of the year	1,883,764	1,923,836	<u>40,072</u>
			<u>\$ (372,433)</u>

Investment income for September 30 is as follows:

Interest and dividend income	\$ 68,296
Unrealized loss on value of securities	(372,433)
Realized loss on value of securities	<u>(23,568)</u>
Net Investment Income	<u>\$ (327,705)</u>

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, 2022, totaled \$36,272. 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, 2022. 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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

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, 2022, 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.

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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: FAIR VALUE MEASUREMENT (continued)

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, 2022:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 31,641	\$ -	\$ -	\$ 31,641
Fixed Income				
Mutual fund - bonds	160,395			160,395
ETP - bonds	<u>401,706</u>	<u>-</u>	<u>-</u>	<u>401,706</u>
Total Fixed Income	<u>562,101</u>	<u>-</u>	<u>-</u>	<u>562,101</u>
Equities				
Mutual fund - equities	634,168	-	-	634,168
ETP - equities	<u>1,007,828</u>	<u>-</u>	<u>-</u>	<u>1,007,828</u>
Total Equities	<u>1,641,996</u>	<u>-</u>	<u>-</u>	<u>1,641,996</u>
Real estate investment	<u>299,559</u>	<u>-</u>	<u>-</u>	<u>299,559</u>
Total assets measured at fair value	<u>\$ 2,535,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,535,297</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, 2022, is \$419,840.

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, 2022, is \$6,830,751.

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, 2022, is \$2,738,027.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 10: NOTE PAYABLE (continued)

Notes payable are reduced by the New Market Tax Credit unamortized debt issuance costs of \$469,434 as of September 30, 2022.

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

<u>Year Ending September 30,</u>	<u>Amounts</u>
2023	\$ 9,000
2024	9,334
2025	9,681
2026	10,000
2027	10,350
Thereafter	<u>9,470,819</u>
	<u>\$ 9,519,184</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.

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, 2022 and 2021. The Mission will repay its endowment fund upon the close of sale or other termination of its current investment.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

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 \$26,522 for the year ended September 30, 2022.

NOTE 14: NON-CASH CONTRIBUTIONS

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

	<u>2022</u>
Contributed clothing and household items, valued at estimated thrift store value	\$ 22,595
Contributed food	<u>205,576</u>
Total	<u>\$ 228,171</u>

Any unused items are donated to other nonprofit organizations, and have been recorded as donations in the amount of \$3,389 for the year ended September 30, 2022.

NOTE 15: CONCENTRATION OF CREDIT RISK

At September 30, 2022, 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 \$125,000 in excess of the federally insured deposit limit at September 30, 2022.

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.

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 soon after date of hire. The annual contribution is generally a percentage of the employee's salary. The Mission contributed \$49,646 to the plan for the year ended September 30, 2022.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

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).

Endowment funds as of September 30, 2022, and changes in endowment funds for the year then ended are as follows:

Endowment net assets, September 30, 2021	\$ 1,410,940
Contributions	-
Loss	(68,067)
Change in value of interest in perpetual income trust	<u>(108,222)</u>
Endowment net assets, September 30, 2022	<u>\$ 1,234,651</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

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: 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, 2022:

Current assets	
Cash and cash equivalents available within one year	\$ 544,618
Pledges receivable, current portion	<u>100,000</u>
Total Current Assets	<u>644,618</u>
Investments and restricted cash	2,796,851
Less investments and restricted cash unavailable for general expenditures within one year:	
Investments and restricted cash subject to appropriation restrictions beyond one year	<u>(697,338)</u>
Total Investments and restricted cash	<u>2,099,513</u>
Current liabilities	<u>(319,205)</u>
Financial assets available to meet cash needs for general expenditures within one year as of September 30, 2022	<u>\$ 2,424,926</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 21: NET ASSETS

Net Assets With Donor Restrictions

As of September 30, 2022, net assets with donor restrictions consist of the following:

Loan from endowment for ED House	\$ 250,000
Interest in perpetual trust	449,593
Pledges and grants receivable	484,401
Cash restricted for building improvements	249,106
Cash restricted – other	12,448
Endowment assets	<u>535,058</u>
Total Net Assets With Donor Restrictions	<u>\$ 1,980,606</u>

NOTE 22: 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 20, 2023, the Mission's operations remain open.

NOTE 23: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 20, 2023, 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, 2022

(With Comparative Totals for September 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	(Memo) Total 2021
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 253,252	\$ -	\$ 253,252	\$ 307,107
Accounts receivable	88,500	-	88,500	88,500
Deferred rent	924,990	-	924,990	654,261
Total Current Assets	1,266,742	-	1,266,742	1,049,868
Property and Equipment:				
Land	4,975,000	-	4,975,000	4,975,000
Building and improvements	10,475,377	-	10,475,377	10,457,147
	15,450,377	-	15,450,377	15,432,147
Less: Accumulated depreciation	(1,014,632)	-	(1,014,632)	(690,350)
Net Property and Equipment	14,435,745	-	14,435,745	14,741,797
Total Assets	<u>\$ 15,702,487</u>	<u>\$ -</u>	<u>\$ 15,702,487</u>	<u>\$ 15,791,665</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 8,111	\$ -	\$ 8,111	\$ -
Accrued liabilities	79,538	-	79,538	79,538
Total Current Liabilities	87,649	-	87,649	79,538
Non-Current Liabilities:				
Notes payable	9,099,344	-	9,099,344	9,078,118
Total Liabilities	9,186,993	-	9,186,993	9,157,656
Net Assets				
Without Donor Restrictions	6,515,494	-	6,515,494	6,634,009
With Donor Restrictions	-	-	-	-
Total Net Assets	6,515,494	-	6,515,494	6,634,009
Total Liabilities and Net Assets	<u>\$ 15,702,487</u>	<u>\$ -</u>	<u>\$ 15,702,487</u>	<u>\$ 15,791,665</u>

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

SBRM SUPPORT CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

(With Comparative Totals for September 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	(Memo) Total 2021
Support and Revenue				
Gifts and grants	\$ -	\$ -	\$ -	\$ -
Rental income	388,729	-	388,729	388,729
Interest income	50	-	50	60
Net assets released from restriction	-	-	-	-
Total Support and Revenue	388,779	-	388,779	388,789
Expenses				
Program Expenses:				
Interest expense	106,051	-	106,051	106,051
CDE expenses	50,509	-	50,509	46,730
Debt issuance costs	21,226	-	21,226	20,933
Depreciation	324,282	-	324,282	323,348
Total Program Expenses	502,068	-	502,068	497,062
Management and general	5,226	-	5,226	5,126
Fundraising	-	-	-	-
Total Expenses	507,294	-	507,294	502,188
Change in Net Assets	(118,515)	-	(118,515)	(113,399)
Net Assets at Beginning of Year	6,634,009	-	6,634,009	6,747,408
Net Assets at End of Year	\$ 6,515,494	\$ -	\$ 6,515,494	\$ 6,634,009

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