

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

**COMBINED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

December 31, 2020 and 2019

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Homeless Intervention Services of Orange County
Placentia, California

Report on the Financial Statements

We have audited the accompanying combined financial statements of Homeless Intervention Services of Orange County (the Organization), which comprise the combined statements of financial position as of December 31, 2020 and 2019, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Homeless Intervention Services of Orange County as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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July 2, 2021

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HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 351,087	\$ 268,230
Cash and cash equivalents - restricted	<u>88,277</u>	<u>67,024</u>
Total cash and cash equivalents	439,364	335,254
Investments	25,907	130,804
Grants receivable	12,600	16,870
Prepaid expenses	33,025	2,732
Inventory	<u>39,592</u>	<u>31,185</u>
Total current assets	<u>550,488</u>	<u>516,845</u>
Noncurrent assets:		
Property and equipment, net	<u>224,455</u>	<u>215,139</u>
Total noncurrent assets	<u>224,455</u>	<u>215,139</u>
Total assets	<u>\$ 774,943</u>	<u>\$ 731,984</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 6,250	\$ -
Resident deposits	-	3,820
Accrued liabilities	22,480	15,402
Deferred grant revenue - PPP	<u>67,157</u>	<u>-</u>
Total current liabilities	<u>95,887</u>	<u>19,222</u>
Noncurrent liabilities:		
Deferred forgiveness revenue - City of Placentia	<u>126,000</u>	<u>132,000</u>
Total noncurrent liabilities	<u>126,000</u>	<u>132,000</u>
Total liabilities	<u>221,887</u>	<u>151,222</u>
Net assets:		
Without donor restrictions	464,779	513,738
With donor restrictions	<u>88,277</u>	<u>67,024</u>
Total net assets	<u>553,056</u>	<u>580,762</u>
Total liabilities and net assets	<u>\$ 774,943</u>	<u>\$ 731,984</u>

See independent auditors' report and accompanying notes

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenues:						
Contributions	\$ 104,615	\$ 72,643	\$ 177,258	\$ 74,387	\$ -	\$ 74,387
Grant revenue	426,220	-	426,220	178,519	-	178,519
Program fees	5,050	-	5,050	17,786	-	17,786
Sales	158,366	-	158,366	374,225	-	374,225
Donated rent	61,099	-	61,099	33,600	-	33,600
Fundraising	90,763	-	90,763	120,902	-	120,902
Investment income (loss), net	(351)	-	(351)	16,962	-	16,962
Other income	28,180	-	28,180	3,208	-	3,208
Net assets released from restrictions	51,390	(51,390)	-	12,929	(12,929)	-
Total support and revenues	925,332	21,253	946,585	832,518	(12,929)	819,589
Expenses:						
Program activities:						
Homeless Intervention Services	701,076	-	701,076	595,439	-	595,439
Charity's Closet	87,509	-	87,509	102,875	-	102,875
Total program activities	788,585	-	788,585	698,314	-	698,314
Supporting activities:						
General and administrative	99,824	-	99,824	70,473	-	70,473
Fundraising	85,882	-	85,882	56,184	-	56,184
Total supporting activities	185,706	-	185,706	126,656	-	126,656
Total expenses	974,291	-	974,291	824,970	-	824,970
Change in net assets	(48,959)	21,253	(27,706)	7,548	(12,929)	(5,381)
Net assets, beginning of year, restated	513,738	67,024	580,762	506,190	79,953	586,143
Net assets, end of year, restated	\$ 464,779	\$ 88,277	\$ 553,056	\$ 513,738	\$ 67,024	\$ 580,762

See independent auditors' report and accompanying notes

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

	Program activities		Supporting activities		Total
	H.I.S. House	Charity's Closet	General and administrative	Fundraising	
Expenses:					
Advertising	\$ -	\$ -	\$ -	\$ 18,554	\$ 18,554
Community development	955	-	-	-	955
Depreciation expense	21,025	2,013	2,278	-	25,316
Employee expense	23,033	-	1,212	-	24,245
Employee benefits	6,607	-	348	-	6,955
Employee wages and taxes	327,021	250	86,314	67,328	480,913
Events direct expense	2,301	-	-	-	2,301
Facility expense	22,733	149	2,263	-	25,145
Food service	1,155	-	-	-	1,155
Insurance	4,925	-	487	-	5,412
Office supplies and equipment	21,794	6,810	2,829	-	31,433
Postage and delivery	506	-	-	-	506
Printing ads and reproduction	135	-	-	-	135
Professional fees	55,378	-	-	-	55,378
Professional development	2,669	-	140	-	2,809
Program and case management	14,378	-	-	-	14,378
Rental and lease expense	129,099	55,367	-	-	184,466
Resident assistance	46,056	-	-	-	46,056
Taxes	95	16,233	1,615	-	17,943
Travel and meals	1,037	3,233	-	-	4,270
Utilities	20,175	3,454	2,337	-	25,966
Total expenses	\$ 701,076	\$ 87,509	\$ 99,824	\$ 85,882	\$ 974,291

See independent auditors' report and accompanying notes

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended December 31, 2019

	<u>Program activities</u>		<u>Supporting activities</u>		<u>Total</u>
	<u>H.I.S. House</u>	<u>Charity's Closet</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Expenses:					
Advertising	\$ 34,073	\$ 755	\$ -	\$ -	\$ 34,828
Bank fees	3,678	-	-	-	3,678
Community development	1,638	-	-	-	1,638
Depreciation expense	17,056.96	2,013	1,886	-	20,956
Employee expense	21,194	-	1,115	-	22,309
Employee benefits	15,087	-	794	-	15,881
Employee wages and taxes	272,893	15,000	57,236	56,184	401,313
Events direct expense	47,963	-	-	-	47,963
Facility expense	19,389	149	1,932	-	21,470
Food service	1,401	-	-	-	1,401
Insurance	2,351	-	233	-	2,584
Office supplies and equipment	13,264	6,671	1,972	-	21,907
Postage and delivery	825	-	-	-	825
Printing ads and reproduction	628	-	-	-	628
Professional fees	17,175	-	-	-	17,175
Professional development	1,866	-	98	-	1,964
Program and case management	22,825	-	-	-	22,825
Rental and lease expense	58,796	55,367	-	-	114,163
Resident assistance	11,537	-	-	-	11,537
Taxes	16,726	16,233	3,260	-	36,219
Travel and meals	(1,153)	3,233	-	-	2,080
Utilities	16,226	3,454	1,946	-	21,626
	<u>16,226</u>	<u>3,454</u>	<u>1,946</u>	<u>-</u>	<u>21,626</u>
 Total expenses	 <u>\$ 595,439</u>	 <u>\$ 102,875</u>	 <u>\$ 70,473</u>	 <u>\$ 56,184</u>	 <u>\$ 824,970</u>

See independent auditors' report and accompanying notes

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (27,706)	\$ (5,381)
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	25,316	20,956
Unrealized (gain) loss from investments	948	(13,086)
Changes in:		
Grants receivable	4,270	(9,035)
Prepaid expenses	(30,293)	39
Inventory	(8,407)	(3,209)
Accounts payable	6,250	-
Resident deposits	(3,820)	(70)
Deferred grant revenue - PPP	67,157	-
Deferred forgiveness revenue - City of Placentia	(6,000)	-
Accrued liabilities	<u>7,078</u>	<u>1,989</u>
 Net change in operating activities	 <u>34,793</u>	 <u>(7,797)</u>
 Cash flows from investing activities		
Purchase of investments and dividends reinvested	-	(28,943)
Liquidation of investments	103,949	-
Acquisition of property and equipment	<u>(34,632)</u>	<u>(46,355)</u>
 Net change in investing activities	 <u>69,317</u>	 <u>(75,298)</u>
 Net change in cash and cash equivalents	 <u>104,110</u>	 <u>(83,095)</u>
 Total cash and cash equivalents, beginning of year	 <u>335,254</u>	 <u>418,349</u>
 Total cash and cash equivalents, end of year	 <u><u>\$ 439,364</u></u>	 <u><u>\$ 335,254</u></u>

There were no financing activities for the years ended December 31, 2020 and 2019.

For the years ended December 31, 2020 and 2019, there was no cash paid for interest or income taxes.

There were no noncash financing or investing activities for the years ended December 31, 2020 and 2019.

See accompanying notes and independent auditors' report

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 1 – Summary of significant accounting policies

This summary of significant accounting policies is presented to assist in understanding the accompanying combined financial statements. The combined financial statements and notes are the representations of Homeless Intervention Services of Orange County's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting policies and have been consistently applied in the preparation of the combined financial statements.

Nature of activities

Homeless Intervention Services of Orange County (the Organization) is a nonprofit corporation which was originally created as a subcommittee of Placentia Presbyterian Church (the Church), and operated under the auspices of the Church through May 2020 as Homeless Intervention Shelter and House (H.I.S. House). Its purpose was to provide food, clothing, education, financial aid, supplies, medical aid and other resources to the homeless, transients, and others in need in the Orange County, California area. In May 2020, the Organization secured a unique 501(c)(3) status and was independently incorporated as a California nonprofit public benefit corporation. The Organization also operates a thrift store, Charity's Closet, which exists solely to support the Organization and provided roughly 17% and 46% of the Organization's total revenues during the years ended December 31, 2020 and 2019, respectively.

Basis of accounting

The combined financial statements of the Organization have been prepared on the accrual basis. The significant policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

Principles of combination

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America. The combined financial statements include the accounts of Homeless Intervention Services of Orange County and Charity's Closet. Charity's Closet is a sub-entity of Homeless Intervention Services of Orange County which operates as a thrift store for the benefit of Homeless Intervention Services of Orange County. All significant transactions between combined entities have been eliminated in the accompanying combined financial statements.

Concentrations of credit risk

The Organization maintains bank accounts insured by the Federal Deposit Insurance Corporation (FDIC), the balances of which may, at times, be in excess of FDIC's limits of \$250,000. The Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk related to cash balances.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Cash and cash equivalents – restricted

The Organization also routinely receives contributions that are subject to donor-imposed restrictions. Restricted cash consists of those amounts set aside to comply with such restrictions.

Investments

Investments consist primarily of money market funds and mutual funds, carried at fair market value. The Organization recognizes the realized and unrealized gain/loss in the change in net assets in the year that it occurs. Even though some of the investments meet the definition of cash and cash equivalents, they are part of a larger pool, and therefore are classified as investments.

Grants receivable

The Organization contracts with other organizations for the provision of services within Orange County. Some of the contracts have been written as expense reimbursement grants. These grants are payable upon the submission of specified documentation. The Organization uses the direct write-off method to account for uncollectable receivables since management expects collection of the entire receivable. Although this method is not in accordance with U.S. generally accepted accounting principles, management believes the difference in the methods is immaterial to the combined financial statements.

Inventory

Inventory consists of various donations of clothes, toys, and furniture. The value of the inventory is reflected at fair market value.

Property and equipment

Capital expenditures over \$500 for property and equipment are capitalized, and presented at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years. Donated assets are capitalized at their approximate fair value at the date of the gift. Depreciation expense for the years ended December 31, 2020 and 2019 was \$25,316 and \$20,956, respectively.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 1 – Summary of significant accounting policies (continued)

Property and equipment (continued)

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2020 and 2019, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

Net assets

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. At December 31, 2020 and 2019, net assets with donor restrictions consisted of \$88,277 and \$67,024, respectively.

Revenue recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a benefit interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue is recognized when earned.

Contributed goods, services, and rent

Volunteers contribute amounts of time to the program activities, administration, and fundraising and development activities carried out by the Organization. However, the combined financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States. Contributed goods are recorded at fair value at the date of the donation. Donated professional services are recorded at their respective fair values. No significant contributions of such goods or services were received during the years ended December 31, 2020 and 2019. For the years ended December 31, 2020 and 2019, the amounts for donated rent, included on the combined statements of activities and functional expenses, was \$61,099 and \$33,600, respectively. See Note 7.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 1 – Summary of significant accounting policies (continued)

Concentration of support and revenue

A majority of the Organization's contribution revenues comes from individuals and organizations around the area. The Organization obtained a major portion of its grant revenues for the years ended December 31, 2020 and 2019 from Rescare, Inc. The grant revenue received from this organization comprised of approximately 26% and 67% of total grant revenue for the years ended December 31, 2020 and 2019, respectively.

Functional allocation of expenses

The combined financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Certain significant expenses are allocated on a basis of square footage, such as insurance and depreciation; while others are allocated on a basis of time and effort estimates, such as employee wages and expenses.

Advertising costs

The Organization expenses all advertising costs as they are incurred. Advertising costs for the years ended December 31, 2020 and 2019 were \$18,554 and \$34,828, respectively.

Income taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code Section 501(c)(3) and is classified as a sub-entity of the Placentia Presbyterian Church. The Organization is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended December 31, 2020 and 2019, the Organization had no activities unrelated to its exempt purposes, and therefore incurred no tax liability due to unrelated business income.

Combined financial statement estimates and assumptions

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Reclassifications

Certain prior year revenues and expenses have been reclassified to conform to the current year presentation.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2 – Liquidity and availability

As part of liquidity management, the Organization has put a policy in place to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure within one year consisted of the following at December 31, 2020:

Total cash and cash equivalents	\$ 439,364
Investments	25,907
Grants receivable	<u>12,600</u>
 Total financial assets	 <u>477,871</u>
 Donor contributions with specific purpose restrictions	 <u>88,277</u>
 Total donor contributions with restrictions	 <u>88,277</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u><u>\$ 389,594</u></u>

Note 3 – Investments

Investments consisted of the following at December 31:

	2020	2019
Certificate of deposit	\$ 25,907	\$ 25,620
Mutual funds	<u>-</u>	<u>105,184</u>
 Total investments	 <u><u>\$ 25,907</u></u>	 <u><u>\$ 130,804</u></u>

The Organization's investments are held primarily by American Funds as the custodian.

Investment income consisted of the following for the years ended December 31:

	2020	2019
Dividend and interest income	\$ 597	\$ 3,876
Unrealized gain (loss) on investments	<u>(948)</u>	<u>13,086</u>
 Total investment income (loss), net	 <u><u>\$ (351)</u></u>	 <u><u>\$ 16,962</u></u>

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 3 – Investments (continued)

The fair value of the Organization’s investments is measured based on levels of observable and reliable assumptions as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker traded transactions. These valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Organization’s investments are measured and reported at fair value on a recurring basis. The following table shows the balances as of December 31, 2020, of these assets based on their fair value measurement levels:

	Total	Level 1	Level 2	Level 3
Certificate of deposit	\$ 25,907	\$ -	\$ 25,907	\$ -
	<u>25,907</u>	<u>-</u>	<u>25,907</u>	<u>-</u>
Total	\$ 25,907	\$ -	\$ 25,907	\$ -
	<u>25,907</u>	<u>-</u>	<u>25,907</u>	<u>-</u>

The Organization’s investments are measured and reported at fair value on a recurring basis. The following table shows the balances as of December 31, 2019, of these assets based on their fair value measurement levels:

	Total	Level 1	Level 2	Level 3
Money market funds	\$ 25,620	\$ -	\$ 25,620	\$ -
Mutual funds	105,184	105,184	-	-
	<u>105,184</u>	<u>105,184</u>	<u>-</u>	<u>-</u>
Total	\$ 130,804	\$ 105,184	\$ 25,620	\$ -
	<u>130,804</u>	<u>105,184</u>	<u>25,620</u>	<u>-</u>

Certificates of deposit classified as Level 2, as they are valued at amortized cost, which approximates fair value.

Mutual funds: classified as Level 1, as they are traded in active markets for which closing stock prices are readily available.

There were no transfers between Level 1, 2, and 3 investments during the years ended December 31, 2020 and 2019.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 4 – Property and equipment

Property and equipment consisted of the following at December 31:

	2020	2019
Building improvements	\$ 477,950	\$ 463,570
Furniture and fixtures	33,514	17,791
Equipment	<u>50,215</u>	<u>42,366</u>
Total property and equipment	561,679	523,727
Less: accumulated depreciation	<u>(337,224)</u>	<u>(308,588)</u>
Property and equipment, net	<u>\$ 224,455</u>	<u>\$ 215,139</u>

Note 5 – Deferred revenue

Deferred grant revenue - PPP

In April 2020, as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Organization received \$67,157 in proceeds from Placentia Presbyterian Church, which obtained the funds from a financial institution under the Paycheck Protection Program. The Organization initially recorded the amount as a loan, but reclassified to deferred grant income (a current liability) as of December 31, 2020, when forgiveness became imminent.

Deferred forgiveness revenue – City of Placentia

In January 2012, Placentia Presbyterian Church purchased real property from the City of Placentia, paying cash of \$105,000 and executing a promissory note for \$180,000. The obligation was effectively transferred to the Organization upon dissolution of the Organization as a sub-entity of the Church in May of 2020. The promissory note is forgivable annually at a rate \$6,000 per year, provided the Organization performs the duties set forth in the original Disposition and Development Agreement between the Church and the City.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6 – Net assets

Net assets consisted of the following at December 31:

	2020	2019
Without donor restrictions		
Undesignated	\$ <u>464,779</u>	\$ <u>513,738</u>
Total net assets without donor restrictions	<u>464,779</u>	<u>513,738</u>
With donor restrictions		
Resident	42,567	42,865
Childcare	21,386	21,986
Child activities	-	2,173
Home Share	<u>24,324</u>	<u>-</u>
Total net assets with donor restrictions	<u>88,277</u>	<u>67,024</u>
Total net assets	\$ <u><u>553,056</u></u>	\$ <u><u>580,762</u></u>

Note 7 – Operating leases

In 2010, the Organization entered into a lease agreement with the Redevelopment Agency of Placentia for the rental space. The Organization continues to renew the lease terms and is using the space to operate a second step program. The Organization is required to make quarterly payments of \$900. The total rental payments for the years ended December 31, 2020 and 2019 was \$3,600 and \$3,600, respectively. The estimated fair market value of the lease agreement for the rental space with the City of Placentia for the years ending December 31, 2020 and 2019 were \$40,200 and \$37,200, respectively. The difference between the lease payments and the estimated fair market value was \$36,600 and \$33,600, respectively, for the years ended December 31, 2020 and 2019, respectively, and is recognized as donated rent and a corresponding expense.

In 2016, the Organization elected to extend an existing lease agreement for retail space for an additional five years through February 28, 2021. The Organization is using the space to operate a thrift store under the business name Charity’s Closet and pays monthly rent of \$3,600 plus common area maintenance costs. Charity’s Closet also rents a storage unit from the same landlord on a month to month basis and pays monthly rent of \$500. Related rental expense for the years ended December 31, 2020 and 2019, was \$55,367 and \$62,563, respectively.

In 2020, the Organization entered an into an operating lease agreement with a private party for residential space to conduct homeless intervention services. The lease agreement expires June 30, 2021, after which point the lease may renew or become month to month. The lease requires monthly payments of \$6,250. Related rental expense for the years ended December 31, 2020 and 2019, was \$37,500 and \$0, respectively.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7 – Operating leases (continued)

In 2020, as a result of the dissolution of the Organization as a sub-entity of the Church, the Organization was assigned an operating lease agreement for usage of the 907 Bradford residential property as a shelter. The intent of the Church is to transfer ownership of the property to the Organization in the near future. Until such time, the Organization pays the Church \$1 per year to operate on this property. The estimated market rate for usage of the property for seven months during 2020 was \$24,500. The difference between the payments and the estimated fair value amounted to \$23,999, which is recognized as donated rent and a corresponding expense.

The Organization annually renews a one year lease term for office space with the Placentia Presbyterian Church. Related rental expense for the years ended December 31, 2020 and 2019 was \$14,400 and \$14,400, respectively.

Future minimum rental payments required are as follows for the years ended December 31:

2021	\$	90,947
2022		48,800
2023		46,400
2024		15,600

Note 8 – Related parties

Placentia Presbyterian Church (the Church) holds title to the main residential property shelter used by the Organization, located at 907 Bradford. As the Organization was a sub-entity of the Church until May 2020, there was no donated rent recorded on these combined financial statements prior to May 2020. Donated rent from May to December 2020 was recognized in the amount of \$23,499. See Note 7.

The Church handled all of the Organization’s payroll and related reporting requirements through May 2020. The Organization reimbursed the Church for all payroll expenses incurred on behalf of the Organization. For the years ended December 31, 2020 and 2019, the reimbursement totaled \$211,459 and \$417,194, respectively. As a result of the payroll arrangement, the Church received PPP funds directly from a financial institution on behalf of the Organization and subsequently disbursed those funds to the Organization. See Note 5.

A board member owns a construction business specializing in water damage restoration and mold remediation. The Organization paid approximately \$10,560 and \$26,000 for these services during the years ended December 31, 2020 and 2019.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 9 – Risks and uncertainties

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's donors, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Note 10 – Prior period adjustments

During 2020, management became aware that certain assets recorded on the Organization's books were improperly capitalized when the rights and obligations actually belonged to Placentia Presbyterian Church, a related party. This caused fixed assets and net assets to be overstated by roughly \$42,225. Accordingly, fixed assets and net assets have been decreased by \$42,225 for the year ended December 31, 2019. The effect of this change was a decrease in net assets for the year ended December 31, 2019.

Additionally, management became aware that an implied capital lease existed and although the capital asset was recorded on the Organization's books, the related obligation was not recorded appropriately. The form of the obligation is a forgivable promissory note, forgiven in annual amounts of \$6,000 for 30 years, and has therefore been recorded as noncurrent deferred revenue. Accordingly, noncurrent deferred revenue has been increased and net assets decreased by \$132,000 for the year ended December 31, 2019. The effect of this change was a decrease in net assets for the year ended December 31, 2019.

Note 11 – Subsequent events

Operating lease renewal

On April 21, 2021, Charity's Closet renewed its operating lease agreement for retail space to operate the thrift store. The lease expires April 20, 2024.

Deferred grant revenue

On March 12, 2021, the PPP funds of \$67,157 were forgiven in full and the deferred grant revenue was recognized in full.

Management's evaluation

Management has evaluated subsequent events through July 2, 2021, the date on which the combined financial statements were available to be issued.