

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

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

December 31, 2021 and 2020

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Homeless Intervention Services of Orange County, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Homeless Intervention Services of Orange County as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Homeless Intervention Services of Orange County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Homeless Intervention Services of Orange County's ability to continue as a going concern for one year after the date that the financial statements are issued.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Homeless Intervention Services of Orange County'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Homeless Intervention Services of Orange County'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.

Ronald Blue & Co. CPAs

Santa Ana, California
September 29, 2022

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

| | 2021 | 2020 |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 426,974 | \$ 351,087 |
| Cash and cash equivalents - restricted | <u>84,637</u> | <u>88,277</u> |
| Total cash and cash equivalents | 511,611 | 439,364 |
| Grants receivable | 13,068 | 12,600 |
| Prepaid expenses | 38,113 | 33,025 |
| Inventory | <u>33,271</u> | <u>39,592</u> |
| Total current assets | <u>596,063</u> | <u>524,581</u> |
| Noncurrent assets: | | |
| Certificate of deposit | 25,944 | 25,907 |
| Property and equipment, net | <u>217,794</u> | <u>224,455</u> |
| Total noncurrent assets | <u>243,738</u> | <u>250,362</u> |
| Total assets | <u><u>\$ 839,801</u></u> | <u><u>\$ 774,943</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,599 | \$ 6,250 |
| Accrued liabilities | 33,042 | 22,480 |
| Deferred grant revenue - PPP | <u>-</u> | <u>67,157</u> |
| Total current liabilities | <u>38,641</u> | <u>95,887</u> |
| Noncurrent liabilities: | | |
| Deferred forgiveness revenue - City of Placentia | <u>120,000</u> | <u>126,000</u> |
| Total noncurrent liabilities | <u>120,000</u> | <u>126,000</u> |
| Total liabilities | <u>158,641</u> | <u>221,887</u> |
| Net assets: | | |
| Without donor restrictions | 596,523 | 464,779 |
| With donor restrictions | <u>84,637</u> | <u>88,277</u> |
| Total net assets | <u>681,160</u> | <u>553,056</u> |
| Total liabilities and net assets | <u><u>\$ 839,801</u></u> | <u><u>\$ 774,943</u></u> |

See independent auditors' report and accompanying notes

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2021 and 2020

| | 2021 | | | 2020 | | |
|--|-------------------------------|----------------------------|-------------------|-------------------------------|----------------------------|-------------------|
| | Without donor restrictions | With donor restrictions | Total | Without donor restrictions | With donor restrictions | Total |
| Support and revenues: | | | | | | |
| Contributions | \$ 443,265 | \$ - | \$ 443,265 | \$ 104,615 | \$ 72,643 | \$ 177,258 |
| Grant revenue | 319,320 | - | 319,320 | 426,220 | - | 426,220 |
| Program fees | 14,660 | - | 14,660 | 5,050 | - | 5,050 |
| Sales | 223,329 | - | 223,329 | 142,451 | - | 142,451 |
| Donated rent | 87,746 | - | 87,746 | 61,099 | - | 61,099 |
| Forgiveness of debt | 6,000 | - | 6,000 | 6,000 | - | 6,000 |
| Fundraising | 85,513 | - | 85,513 | 90,763 | - | 90,763 |
| Investment income (loss), net | 28 | - | 28 | (351) | - | (351) |
| Other income | - | - | - | 22,180 | - | 22,180 |
| Net assets released from restrictions | 3,640 | (3,640) | - | 51,390 | (51,390) | - |
| Total support and revenues | 1,183,501 | (3,640) | 1,179,861 | 909,417 | 21,253 | 930,670 |
| Expenses: | | | | | | |
| Program activities: | | | | | | |
| Homeless Intervention Services | 762,786 | - | 762,786 | 686,593 | - | 686,593 |
| Charity's Closet | 77,545 | - | 77,545 | 87,509 | - | 87,509 |
| Total program activities | 840,331 | - | 840,331 | 774,102 | - | 774,102 |
| Supporting activities: | | | | | | |
| General and administrative | 116,242 | - | 116,242 | 98,392 | - | 98,392 |
| Fundraising | 95,183 | - | 95,183 | 85,882 | - | 85,882 |
| Total supporting activities | 211,426 | - | 211,426 | 184,274 | - | 184,274 |
| Total expenses | 1,051,757 | - | 1,051,757 | 958,376 | - | 958,376 |
| Change in net assets | 131,744 | (3,640) | 128,104 | (48,959) | 21,253 | (27,706) |
| Net assets, beginning of year, restated | 464,779 | 88,277 | 553,056 | 513,738 | 67,024 | 580,762 |
| Net assets, end of year, restated | \$ 596,523 | \$ 84,637 | \$ 681,160 | \$ 464,779 | \$ 88,277 | \$ 553,056 |

See independent auditors' report and accompanying notes

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

| | Program activities | | Supporting activities | | |
|-------------------------------|--------------------|---------------------|-------------------------------|-------------|--------------|
| | H.I.S. House | Charity's Closet | General and administrative | Fundraising | Total |
| Expenses: | | | | | |
| Advertising | \$ - | \$ - | \$ - | \$ 13,585 | \$ 13,585 |
| Auto | 98 | - | - | - | 98 |
| Depreciation expense | 21,026 | 1,005 | 2,179 | - | 24,210 |
| Employee expense | 23,018 | - | 1,211 | - | 24,229 |
| Employee benefits | 17,221 | - | 906 | - | 18,127 |
| Employee wages and taxes | 396,335 | 250 | 104,662 | 81,598 | 582,845 |
| Events direct expense | 3,431 | - | - | - | 3,431 |
| Facility expense | 9,102 | 2,086 | 1,106 | - | 12,294 |
| Food service | 1,267 | - | - | - | 1,267 |
| Insurance | 6,519 | - | 645 | - | 7,164 |
| Office supplies and equipment | 9,500 | 5,240 | 1,458 | - | 16,198 |
| Postage and delivery | 502 | - | - | - | 502 |
| Printing ads and reproduction | 2,020 | - | - | - | 2,020 |
| Professional fees | 33,305 | 575 | - | - | 33,880 |
| Professional development | 10,463 | - | 551 | - | 11,014 |
| Program and case management | 11,185 | - | - | - | 11,185 |
| Rental and lease expense | 161,696 | 62,983 | - | - | 224,679 |
| Resident assistance | 25,379 | - | - | - | 25,379 |
| Taxes | 1,400 | 1,321 | 269 | - | 2,990 |
| Travel and meals | 497 | - | - | - | 497 |
| Utilities | 28,823 | 4,085 | 3,255 | - | 36,163 |
| | | | | | |
| Total expenses | \$ 762,786 | \$ 77,545 | \$ 116,242 | \$ 95,183 | \$ 1,051,757 |

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, 2020

| | Program activities | | Supporting activities | | |
|-------------------------------|--------------------|---------------------|-------------------------------|------------------|-------------------|
| | H.I.S. House | Charity's Closet | General and administrative | Fundraising | Total |
| 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 | (14,388) | 16,233 | 183 | - | 2,028 |
| Travel and meals | 1,037 | 3,233 | - | - | 4,270 |
| Utilities | 20,175 | 3,454 | 2,337 | - | 25,966 |
| | | | | | |
| Total expenses | <u>\$ 686,593</u> | <u>\$ 87,509</u> | <u>\$ 98,392</u> | <u>\$ 85,882</u> | <u>\$ 958,376</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, 2021 and 2020

| | 2021 | 2020 |
|---|------------------------------|------------------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 128,104 | \$ (27,706) |
| Adjustments to reconcile change in net assets to cash provided by operating activities | | |
| Depreciation | 24,210 | 25,316 |
| Interest reinvested in certificate of deposit | (37) | - |
| Unrealized (gain) loss from investments | - | 948 |
| Changes in: | | |
| Grants receivable | (468) | 4,270 |
| Prepaid expenses | (5,088) | (30,293) |
| Inventory | 6,321 | (8,407) |
| Accounts payable | (651) | 6,250 |
| Resident deposits | - | (3,820) |
| Deferred grant revenue - PPP | (67,157) | 67,157 |
| Deferred forgiveness revenue - City of Placentia | (6,000) | (6,000) |
| Accrued liabilities | <u>10,562</u> | <u>7,078</u> |
| Net change in operating activities | <u>89,796</u> | <u>34,793</u> |
| Cash flows from investing activities | | |
| Liquidation of investments | - | 103,949 |
| Acquisition of property and equipment | <u>(17,549)</u> | <u>(34,632)</u> |
| Net change in investing activities | <u>(17,549)</u> | <u>69,317</u> |
| Net change in cash and cash equivalents | <u>72,247</u> | <u>104,110</u> |
| Total cash and cash equivalents, beginning of year | <u>439,364</u> | <u>335,254</u> |
| Total cash and cash equivalents, end of year | <u><u>\$ 511,611</u></u> | <u><u>\$ 439,364</u></u> |

There were no financing activities for the years ended December 31, 2021 and 2020.

For the years ended December 31, 2021 and 2020, there was no cash paid for interest or income taxes.

There were no noncash financing or investing activities for the years ended December 31, 2021 and 2020.

See accompanying notes and independent auditors' report

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 19% and 15% of the Organization's total revenues during the years ended December 31, 2021 and 2020, 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, 2021 and 2020

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, 2021 and 2020 was \$24,210 and \$25,316, respectively.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 2021 and 2020, 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, 2021 and 2020, net assets with donor restrictions consisted of \$84,637 and \$88,277, respectively. See Note 5.

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.

Revenue from contracts is recognized when the Organization satisfies a performance obligation by transferring a promised good or service to a customer. The Organization considers the terms of the contract and all relevant facts and circumstances when applying the revenue recognition standard. The Organization also applies the revenue recognition standard consistently to contracts with similar characteristics and in similar circumstances.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

Note 1 – Summary of significant accounting policies (continued)

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, 2021 and 2020. For the years ended December 31, 2021 and 2020, the amounts for donated rent, included on the combined statements of activities and functional expenses, was \$87,746 and \$61,099, respectively. See Note 7.

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, 2021 and 2020 from Equus Workforce Solutions, formerly known as Rescare, Inc. The grant revenue received from this organization comprised of approximately 37% and 26% of total grant revenue for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 were \$13,585 and \$18,554, 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, 2021 and 2020, the Organization had no activities unrelated to its exempt purposes, and therefore incurred no tax liability due to unrelated business income.

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

Note 1 – Summary of significant accounting policies (continued)

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. These reclassifications had no impact on the change in net assets.

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, 2021:

| | |
|--|--------------------------|
| Total cash and cash equivalents | \$ 511,611 |
| Grants receivable | <u>13,068</u> |
| Total financial assets | <u>524,679</u> |
| Donor contributions with specific purpose restrictions | <u>84,637</u> |
| Total donor contributions with restrictions | <u>84,637</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u><u>\$ 440,042</u></u> |

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

Note 3 – Property and equipment

Property and equipment consisted of the following at December 31:

| | 2021 | 2020 |
|--------------------------------|-------------------|-------------------|
| Building improvements | \$ 488,202 | \$ 477,950 |
| Furniture and fixtures | 36,817 | 33,514 |
| Equipment | <u>54,210</u> | <u>50,215</u> |
| | | |
| Total property and equipment | 579,229 | 561,679 |
| | | |
| Less: accumulated depreciation | <u>(361,435)</u> | <u>(337,224)</u> |
| | | |
| Property and equipment, net | <u>\$ 217,794</u> | <u>\$ 224,455</u> |

Note 4 – 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. On March 12, 2021, the PPP funds of \$67,157 were forgiven in full and the deferred grant revenue was recognized in full. The amount is included in grant revenue on the combined statements of activities.

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, 2021 and 2020

Note 5 – Net assets

Net assets consisted of the following at December 31:

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Without donor restrictions | | |
| Undesignated | \$ 596,523 | \$ 464,779 |
| | <u>596,523</u> | <u>464,779</u> |
| Total net assets without donor restrictions | <u>596,523</u> | <u>464,779</u> |
| With donor restrictions | | |
| Resident | 40,954 | 42,567 |
| Childcare | 19,359 | 21,386 |
| Home Share | <u>24,324</u> | <u>24,324</u> |
| | <u>84,637</u> | <u>88,277</u> |
| Total net assets with donor restrictions | <u>84,637</u> | <u>88,277</u> |
| Total net assets | <u>\$ 681,160</u> | <u>\$ 553,056</u> |

Note 6 – Investment income

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

| | 2021 | 2020 |
|---------------------------------------|--------------|-----------------|
| Dividend and interest income | \$ 28 | \$ 597 |
| Unrealized gain (loss) on investments | <u>-</u> | <u>(948)</u> |
| Total investment income (loss), net | <u>\$ 28</u> | <u>\$ (351)</u> |

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 expense for the years ended December 31, 2021 and 2020 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, 2021 and 2020 were \$30,600 and \$40,200, respectively. The difference between the lease payments and the estimated fair market value was \$27,000 and \$36,600, respectively, for the years ended December 31, 2021 and 2020, respectively, and is recognized as donated rent and a corresponding expense.

In 2021, the Organization elected to extend an existing lease agreement for retail space for an additional three years through April 3, 2024. The Organization is using the space to operate a thrift store under the business name Charity’s Closet and pays monthly rent of \$3,700 plus common area maintenance costs. Base rent increases by \$100 each year. 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, 2021 and 2020, was \$62,983 and \$55,367, respectively.

In 2020, the Organization entered into an operating lease agreement with a private party for residential space to conduct homeless intervention services. The lease agreement expired June 30, 2021. The lease continued month to month while another agreement was negotiated, resulting in termination of the agreement after November 2021. The lease required monthly payments of \$6,500. Related rental expense for the years ended December 31, 2021 and 2020, was \$70,000 and \$37,500, respectively.

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 the years ended December 31, 2021 and 2020, was \$50,247 and \$24,500, respectively. The difference between the payments and the estimated fair value 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. The base rent amount occasionally increases, and was \$1,500 per month as of December 31, 2021. Related rental expense for the years ended December 31, 2021 and 2020 was \$16,800 and \$14,400, respectively. During 2021, the Organization received relief from rental payments in the amount of \$10,500, which was recorded as donated rent and a corresponding expense.

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

| | | |
|------|----|--------|
| 2022 | \$ | 58,683 |
| 2023 | | 59,883 |
| 2024 | | 29,083 |

HOMELESS INTERVENTION SERVICES OF ORANGE COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2021 and 2020

Note 8 – Retirement plan

The Organization offers a 403(b) retirement Plan to eligible employees. Participants may contribute up to 100% of their regular pay, subject only to statutory limits. The Organization also provides matching of x% of an employee's regular pay. Total employer matching contributions for the years ended December 31, 2021 and 2020, was \$9,766 and \$6,177, respectively, which has been presented as employee benefits in the combined statements of functional expenses.

Note 9 – 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.

A board member owns a construction business specializing in water damage restoration and mold remediation. The Organization paid approximately \$5,185 and \$10,560 for these services during the years ended December 31, 2021 and 2020.

Note 10 – Subsequent events

Lease renewal

On July 19, 2022, the Organization executed an amended lease agreement for the second step program, renewing the agreement through June 31, 2025. The new base rent is \$300 per month, with the option to pay quarterly or annually.

Management's evaluation

Management has evaluated subsequent events through September 29, 2022, the date on which the combined financial statements were available to be issued.