

**SANTA BARBARA RESCUE MISSION**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

# SANTA BARBARA RESCUE MISSION

September 30, 2017

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 17



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Santa Barbara Rescue Mission  
Santa Barbara, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Santa Barbara Rescue Mission (a non-profit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Rescue Mission as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

The Organization's September 30, 2016, financial statements were audited by another auditor, and an unmodified audit opinion was expressed on those audited financial statements dated February 1, 2017.

*McGowan Guntermann*

Santa Barbara, California

February 8, 2018

**SANTA BARBARA RESCUE MISSION**

**STATEMENT OF FINANCIAL POSITION**

September 30, 2017

(With Comparative Totals for September 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	245,952	\$ -	\$ -	\$ 245,952	\$ 207,478
Prepaid expenses and other assets	64,510	-	-	64,510	61,985
Pledges receivable - current portion	-	845,954	-	845,954	912,407
	310,462	845,954	-	1,156,416	1,181,870
Total Current Assets					
Other Assets:					
Restricted cash	-	3,298,382	62,135	3,360,517	2,259,551
Pledges receivable - net of current portion	-	753,846	-	753,846	959,827
Investment	425,085	-	-	425,085	425,085
Land, buildings, and equipment, net	4,471,973	-	-	4,471,973	4,382,419
Due (to)/from other fund	(520,000)	-	520,000	-	-
	\$ 4,687,520	\$ 4,898,182	\$ 582,135	\$ 10,167,837	\$ 9,208,752
Total Assets	\$ 4,687,520	\$ 4,898,182	\$ 582,135	\$ 10,167,837	\$ 9,208,752
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable	61,664	\$ -	\$ -	\$ 61,664	\$ 95,000
Accrued payroll and related liabilities	80,296	-	-	80,296	74,178
Other accrued liabilities	19,299	-	-	19,299	36,525
Deferred revenue	23,700	-	-	23,700	20,700
	184,959	-	-	184,959	226,403
Total Current Liabilities	184,959	-	-	184,959	226,403
Non-Current Liabilities:					
Note payable	925,000	-	-	925,000	925,000
	1,109,959	-	-	1,109,959	1,151,403
Total Liabilities	1,109,959	-	-	1,109,959	1,151,403
Net Assets	3,577,561	4,898,182	582,135	9,057,878	8,057,349
Total Liabilities and Net Assets	\$ 4,687,520	\$ 4,898,182	\$ 582,135	\$ 10,167,837	\$ 9,208,752

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

**SANTA BARBARA RESCUE MISSION**

**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2017**  
**(With Comparative Totals for September 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<b>Support and Revenue</b>					
Gifts and grants	1,420,912	1,198,348	\$ -	\$ 2,619,260	\$ 2,390,727
Special events, net of expenses of \$52,970	328,701	-	-	328,701	328,241
Bequests	183,282	-	-	183,282	37,570
Rental income	194,133	-	-	194,133	176,758
Non-cash contributions	195,799	-	-	195,799	181,280
Fee income	105,605	-	-	105,605	105,209
Miscellaneous income	44,764	-	-	44,764	8,157
Interest income	50	-	-	50	71
Net assets reclassified		110,000	(110,000)	-	-
Net assets released from restriction	310,704	(310,704)	-	-	-
<b>Total Support and Revenue</b>	<u>2,783,950</u>	<u>997,644</u>	<u>(110,000)</u>	<u>3,671,594</u>	<u>3,228,013</u>
<b>Expenses</b>					
<b>Program Expenses:</b>					
Men's recovery program	825,164	-	-	825,164	806,578
Women's recovery program	537,349	-	-	537,349	535,359
Homeless guest services	446,340	-	-	446,340	419,389
Learning center	68,780	-	-	68,780	66,189
<b>Total Program Expenses</b>	<u>1,877,633</u>	<u>-</u>	<u>-</u>	<u>1,877,633</u>	<u>1,827,515</u>
Management and general	339,340	-	-	339,340	323,918
Fundraising	454,092	-	-	454,092	512,880
<b>Total Expenses</b>	<u>2,671,065</u>	<u>-</u>	<u>-</u>	<u>2,671,065</u>	<u>2,664,313</u>
Change in Net Assets	112,885	997,644	(110,000)	1,000,529	563,700
Net Assets at Beginning of Year	<u>3,464,676</u>	<u>3,900,538</u>	<u>692,135</u>	<u>8,057,349</u>	<u>7,493,649</u>
Net Assets at End of Year	<u>\$ 3,577,561</u>	<u>\$ 4,898,182</u>	<u>\$ 582,135</u>	<u>\$ 9,057,878</u>	<u>\$ 8,057,349</u>

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

# SANTA BARBARA RESCUE MISSION

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2017

(With Comparative Totals for September 30, 2016)

	Program Services					Supporting Services				Total 2017	Total 2016
	Men's Recovery Program	Women's Recovery Program	Homeless Guest Services	Learning Center	Total	Management and General Expenses	Fundraising	Total			
Salaries	\$ 283,919	\$ 173,506	\$ 94,640	\$ 39,433	\$ 591,498	\$ 141,960	\$ 55,207	\$ 197,167	\$ 788,665	\$ 807,117	
Payroll taxes	23,171	14,160	7,724	3,218	48,273	11,586	4,506	16,092	64,365	63,452	
Employee benefits	89,829	55,756	37,171	3,098	185,854	102,219	21,683	123,902	309,756	312,670	
<b>Total Salaries and Related Expenses</b>	<b>396,919</b>	<b>243,422</b>	<b>139,535</b>	<b>45,749</b>	<b>825,625</b>	<b>255,765</b>	<b>81,396</b>	<b>337,161</b>	<b>1,162,786</b>	<b>1,183,239</b>	
Clothing	44,549	28,251	35,857	-	108,657	-	-	-	108,657	98,946	
Donations to charities	8,198	5,124	6,559	205	20,086	205	205	410	20,496	19,272	
Donor appeals	-	-	-	-	-	-	156,744	156,744	156,744	224,191	
Donor appeals - consultants	-	-	-	-	-	-	197,223	197,223	197,223	167,498	
Dues	2,858	1,429	-	-	4,287	10,004	-	10,004	14,291	15,153	
Equipment	642	403	514	55	1,614	183	37	220	1,834	528	
Equipment maintenance	19,805	12,449	15,844	1,698	49,796	5,659	1,132	6,791	56,587	21,767	
Expendable supplies	29,975	21,411	28,262	2,569	82,217	1,713	1,713	3,426	85,643	83,012	
Food	96,367	60,230	79,503	-	236,100	2,409	2,409	4,818	240,918	241,963	
Information technology	11,571	8,265	10,909	992	31,737	661	661	1,322	33,059	31,071	
Insurance	9,793	6,995	9,233	839	26,860	560	560	1,120	27,980	24,789	
Interest expense	13,950	9,965	13,153	1,196	38,264	797	797	1,594	39,858	39,967	
Maintenance - building	1,436	1,026	1,354	123	3,939	82	82	164	4,103	2,660	
Miscellaneous	1,850	2,774	-	-	4,624	4,624	-	4,624	9,248	9,636	
Office supplies	1,707	975	244	244	3,170	1,220	488	1,708	4,878	5,247	
Postage	2,219	1,268	-	317	3,804	1,268	1,268	2,536	6,340	6,535	
Printing	5,458	3,639	-	827	9,924	4,962	1,654	6,616	16,540	15,731	
Professional Fees	1,664	832	-	-	2,496	39,102	-	39,102	41,598	40,949	
Program supplies	50,496	40,968	-	3,811	95,275	-	-	-	95,275	79,779	
Taxes	215	153	202	18	588	12	12	24	612	841	
Telephone	3,660	2,847	-	509	7,016	2,034	1,118	3,152	10,168	13,177	
Training	3,867	1,487	74	74	5,502	1,710	223	1,933	7,435	8,725	
Transportation	6,499	3,817	-	-	10,316	-	-	-	10,316	16,184	
Utilities	53,611	38,294	50,548	4,595	147,048	3,064	3,064	6,128	153,176	142,015	
<b>Total Expenses Before Depreciation</b>	<b>767,309</b>	<b>496,024</b>	<b>391,791</b>	<b>63,821</b>	<b>1,718,945</b>	<b>336,034</b>	<b>450,786</b>	<b>786,820</b>	<b>2,505,765</b>	<b>2,492,875</b>	
Depreciation expense	57,855	41,325	54,549	4,959	158,688	3,306	3,306	6,612	165,300	171,438	
<b>Total Expenses</b>	<b>\$ 825,164</b>	<b>\$ 537,349</b>	<b>\$ 446,340</b>	<b>\$ 68,780</b>	<b>\$ 1,877,633</b>	<b>\$ 339,340</b>	<b>\$ 454,092</b>	<b>\$ 793,432</b>	<b>\$ 2,671,065</b>	<b>\$ 2,664,313</b>	
2016 Totals	<u>\$ 806,578</u>	<u>\$ 535,359</u>	<u>\$ 419,389</u>	<u>\$ 66,189</u>	<u>\$ 1,827,515</u>	<u>\$ 323,918</u>	<u>\$ 512,880</u>	<u>\$ 836,798</u>	<u>\$ 2,664,313</u>	<u>\$ 2,664,313</u>	

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

**SANTA BARBARA RESCUE MISSION**

STATEMENTS OF CASH FLOWS  
For the Year Ended September 30, 2017  
(With Comparative Totals for September 30, 2016)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,000,529	\$ 563,700
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	165,300	171,438
Changes in:		
Prepaid expenses and other assets	(2,525)	4,759
Pledges receivable	272,434	766,840
Accounts payable	(33,336)	48,753
Accrued payroll and related liabilities	6,118	32,961
Other accrued liabilities	(17,226)	(25,426)
Deferred revenue	3,000	950
Net Cash Provided by Operating Activities	1,394,294	1,563,975
Cash Flows From Investing Activities:		
Change in cash restricted for:		
Additions for building improvements	(1,553,153)	(1,601,733)
Use of cash for building improvements	226,094	213,174
Purchase of fixed assets	(28,761)	(224,756)
Net Cash Used by Investing Activities	(1,355,820)	(1,613,315)
(Decrease)/Increase in Unrestricted Cash and Cash Equivalents	38,474	(49,340)
Unrestricted Cash and Cash Equivalents at Beginning of Year	207,478	256,818
Unrestricted Cash and Cash Equivalents at End of Year	\$ 245,952	\$ 207,478
Supplemental Disclosures:		
Cash paid for interest	\$ 39,858	\$ 39,968

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 (the Mission) is a Christian nonprofit corporation that has operated in Santa Barbara since 1965. The Mission'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 the Mission is provided by contributions from the general public. These contributions vary in amount from year to year. The Mission also receives bequests which can be significant.

#### Program Services

The Mission 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.

- Homeless Guest Services

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

- Learning Center

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

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### 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.

#### Basis of Presentation

The Mission reports its financial statements in accordance with the principles of fund accounting, whereby the financial position and activities are classified into three categories of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent resources available without restriction for the support of the Mission's operations. Temporarily restricted net assets represent resources subject to donor-imposed restrictions which will be met either by the Mission's actions or the passage of time. Permanently restricted net assets represent resources subject to the restrictions of gift instruments requiring the principal to be maintained intact and only the investment income to be used for the operations of the Mission.

#### Restricted and Unrestricted Revenues and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose for a restriction is accomplished) temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted assets that are received in the same period for which the restrictions are met are recorded as unrestricted.

#### 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.

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Pledges Receivable

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

#### Investment

As explained more fully in Note 4, the Mission's investment in an equity-share arrangement is reported at estimated current market value. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

#### Land, Buildings and Equipment

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

#### 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, 2017, 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, 2017, based on the current borrowing rates for loans with similar maturities.

#### Deferred Revenue

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

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Tax Exempt Status

The Mission is a nonprofit public benefit corporation, which is 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. The Mission qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization that is not a private foundation 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, 2017, the Mission had no uncertain tax positions requiring accrual. The Mission files tax returns in California and U.S. federal jurisdictions. The Mission is no longer subject to U.S. federal and state examinations by tax authorities for years ending before September 30, 2013 and 2012, respectively.

#### Gifts-in-Kind

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

#### Functional Expenses

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

# 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.

#### Reclassifications

Certain balances reported for the year ended September 30, 2016, have been reclassified to make the reporting comparable to the balances reported for the year ended September 30, 2017.

#### 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, 2016, from which the summarized information was derived.

### NOTE 3: 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>2017</u>
Due within one year	\$ 845,954
Due in one to five years	<u>795,850</u>
Total Pledges Receivable	1,641,804
Less discount to net present value	<u>(42,004)</u>
Pledges Receivable, net	<u>\$ 1,599,800</u>

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4: 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 10). The Mission will transfer portions of its share of any appreciation on the property to the Executive Director according to a vesting schedule laid out in the agreement, beginning in the year the property shows appreciation. The equity share percentages will also be adjusted for improvements made to the property by the Executive Director. During the year ending September 30, 2014, the equity ownership percentages were adjusted to reflect improvements made to the property by the Executive Director. At September 30, 2017, the Mission's equity ownership in the house was 48.8%.

Management has determined that the value of the real estate investment at September 30, 2017, to be below the Mission's original investment based on comparable market sales. As of September 30, 2017, the Mission has reported its share of the equity in the investment at \$425,085, reflecting a cumulative unrealized loss of \$94,915.

### NOTE 5: ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The Mission categorizes its investments according to the fair value hierarchy as either: Level 1, based on observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market; Level 2, based on quoted prices in non-active markets or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by external market data; or Level 3, based on unobservable inputs, which cannot be corroborated by external market data. As of September 30, 2017, the equity share investment arrangement with the Mission's Executive Director (see Note 4) was considered a Level 2 investment. The fair market value of the equity share investment is based on comparable market sales.

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6: LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment at September 30, 2017 is as follows:

	<u>Estimated Useful Lives</u>	<u>2017</u>
Land	--	\$ 1,435,600
Building and improvements	40 years	5,330,116
Furniture and fixtures	7 years	454,861
Office equipment	3-5 years	136,742
Vehicles	5 years	65,798
Construction-in-progress		<u>749,616</u>
Total land, buildings and equipment		8,172,553
Less: accumulated depreciation		<u>(3,700,580)</u>
Net land, buildings and equipment		<u>\$ 4,471,973</u>

Depreciation expense for the year ended September 30, 2017, was \$165,300.

### NOTE 7: LINE OF CREDIT

The Mission has a line of credit with Montecito Bank & Trust that bears interest of prime plus 0.5%, no less than 5.5%. The line of credit allows for borrowings up to \$250,000 and has a maturity date of August 5, 2018, at which time any unpaid principal and interest are due if the line is not renewed. The line is collateralized by the Mission's deposit account at Montecito Bank & Trust. No amounts were drawn on the line of credit during the years ending September 30, 2017.

### NOTE 8: NOTE PAYABLE

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

**SANTA BARBARA RESCUE MISSION**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9: TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2017, consist of cash restricted for building improvements of \$3,298,382, and pledges of \$1,599,800.

During the year, two donors elected to change their contributions, totaling \$110,000, from permanently restricted endowment to temporarily restricted for the capital campaign.

Permanently restricted net assets at September 30, 2017, consist of an endowment, the income from which is unrestricted (see Note 15). Permanently restricted net assets at September 30 consist of the following:

	<u>2017</u>
Loan from endowment for ED House	\$ 520,000
Endowment cash	<u>62,135</u>
Total permanently restricted net assets	<u>\$ 582,135</u>

**NOTE 10: INTER-FUND BORROWING**

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

**NOTE 11: RENTAL INCOME**

The Mission offers sober living facilities for graduates of the Men's and Women's recovery programs. This facility has 30 beds for rent at \$600 per month. Rental income received from these facilities was \$170,823 for the year ended September 30, 2017.

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 \$23,310 for the year ended September 30, 2017.



# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 12: NON-CASH CONTRIBUTIONS

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

	<u>2017</u>
Contributed clothing and household items, valued at estimated thrift store value	\$ 129,273
Contributed food	<u>66,526</u>
Total	<u>\$ 195,799</u>

Any unused items are donated to other nonprofit organizations, and have been recorded as donations in the amount of \$20,496 for the year ended September 30, 2017.

### NOTE 13: CONCENTRATION OF CREDIT RISK

At September 30, 2017, 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 \$3,127,000 in excess of the federally insured deposit limit at September 30, 2017.

### NOTE 14: EMPLOYEE BENEFIT PLAN

The Mission offers all its employees the benefits of a tax sheltered annuity plan as described in Section 403(b) of the Internal Revenue Code. The Mission can make discretionary contributions for those who have completed one year of continuous employment. The annual contribution is generally a percentage of the employee's salary. The Mission contributed \$30,334 to the plan for the year ended September 30, 2017.

### NOTE 15: DONOR RESTRICTED ENDOWMENTS

Santa Barbara Rescue Mission's endowment consists of funds permanently restricted by the donor. 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.

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 15: DONOR RESTRICTED ENDOWMENTS (continued)

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are 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 donor-restricted endowment funds, (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 permanently restricted funds 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 is 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 4).

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that current law requires the Mission to retain for a fund of perpetual duration. These deficiencies are reported in the combined financial statements as a reduction in unrestricted net assets. During the year ended September 30, 2009, the investment in real estate was impaired due to declines in the real estate market. The estimated value of the investment at September 30, 2017, was \$425,085, which reflected a cumulative impairment loss of \$94,915. The Board expects the condition to be temporary, with restoration occurring through market recovery.

Endowment funds as of September 30, 2017, and changes in endowment funds for the year then ended are as follows:

Endowment net assets, September 30, 2016	\$ 692,135
Reclassifications to Temporarily Restricted	<u>(110,000)</u>
Endowment net assets, September 30, 2017	<u>\$ 582,135</u>

# SANTA BARBARA RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 16: 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.

At September 30, 2017, no funds have been disbursed under this agreement.

### NOTE 17: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 8, 2018, 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 except as follows:

- Subsequent to September 30, 2017, the mission signed a contract with a local construction company to remodel the Mission's main office building and other structures. The contract commitment is \$7,815,000 and is subject to changes as construction continues.