

SANTA BARBARA RESCUE MISSION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

SANTA BARBARA RESCUE MISSION

September 30, 2018

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Rescue Mission
Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Barbara Rescue Mission (a non-profit organization), which comprise the statement of financial position as of September 30, 2018, 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, 2018, 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

We have previously audited Santa Barbara Rescue Mission's September 30, 2017, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated February 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

January 28, 2019

SANTA BARBARA RESCUE MISSION

STATEMENT OF FINANCIAL POSITION
September 30, 2018
 (With Comparative Totals for September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	\$ 338,750	\$ -	\$ -	\$ 338,750	\$ 245,952
Prepaid expenses and other assets	67,019	-	-	67,019	64,510
Pledges receivable - current portion	-	652,976	-	652,976	845,954
Total Current Assets	405,769	652,976	-	1,058,745	1,156,416
Other Assets:					
Restricted cash	-	1,211,137	62,135	1,273,272	3,360,517
Pledges receivable - net of current portion	-	210,462	-	210,462	753,846
Investment	425,085	-	-	425,085	425,085
Interest in perpetual income trust			591,536	591,536	688,550
Land, buildings, and equipment, net	9,638,035	-	-	9,638,035	4,471,973
Due (to)/from other fund	(520,000)	-	520,000	-	-
Total Assets	\$ 9,948,889	\$ 2,074,575	\$ 1,173,671	\$ 13,197,135	\$ 10,856,387
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable	\$ 1,220,506	\$ -	\$ -	\$ 1,220,506	\$ 61,664
Accrued payroll and related liabilities	86,474	-	-	86,474	80,296
Other accrued liabilities	6,100	-	-	6,100	19,299
Deferred revenue	24,140	-	-	24,140	23,700
Total Current Liabilities	1,337,220	-	-	1,337,220	184,959
Non-Current Liabilities:					
Note payable	939,357	-	-	939,357	925,000
Total Liabilities	2,276,577	-	-	2,276,577	1,109,959
Net Assets	7,672,312	2,074,575	1,173,671	10,920,558	9,746,428
Total Liabilities and Net Assets	\$ 9,948,889	\$ 2,074,575	\$ 1,173,671	\$ 13,197,135	\$ 10,856,387

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

SANTA BARBARA RESCUE MISSION

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2018</u>	<u>Total 2017</u>
Support and Revenue					
Gifts and grants	\$ 1,391,642	\$ 1,228,795	\$ -	\$ 2,620,437	\$ 2,619,260
Special events, net of expenses of \$52,262	321,054	-	-	321,054	328,701
Bequests	602,105	-	-	602,105	183,282
Rental income	36,566	-	-	36,566	194,133
Non-cash contributions	143,007	-	-	143,007	195,799
Fee income	83,961	-	-	83,961	105,605
Miscellaneous income	5,658	-	-	5,658	44,764
Perpetual interest trust income	7,603	-	-	7,603	-
Interest income	50	-	-	50	50
Change in value of interest in perpetual trust	125,000	-	(97,014)	27,986	38,550
Net assets released from restriction	4,052,402	(4,052,402)	-	-	-
Total Support and Revenue	<u>6,769,048</u>	<u>(2,823,607)</u>	<u>(97,014)</u>	<u>3,848,427</u>	<u>3,710,144</u>
Expenses					
Program Expenses:					
Men's recovery program	797,733	-	-	797,733	825,164
Women's recovery program	492,432	-	-	492,432	537,349
Homeless guest services	438,496	-	-	438,496	446,340
Learning center	79,808	-	-	79,808	68,780
Total Program Expenses	<u>1,808,469</u>	<u>-</u>	<u>-</u>	<u>1,808,469</u>	<u>1,877,633</u>
Management and general	294,695	-	-	294,695	339,340
Fundraising	571,133	-	-	571,133	454,092
Total Expenses	<u>2,674,297</u>	<u>-</u>	<u>-</u>	<u>2,674,297</u>	<u>2,671,065</u>
Change in Net Assets	<u>4,094,751</u>	<u>(2,823,607)</u>	<u>(97,014)</u>	<u>1,174,130</u>	<u>1,039,079</u>
Net Assets at Beginning of Year	<u>3,577,561</u>	<u>4,898,182</u>	<u>1,270,685</u>	<u>9,746,428</u>	<u>8,707,349</u>
Net Assets at End of Year	<u>\$ 7,672,312</u>	<u>\$ 2,074,575</u>	<u>\$ 1,173,671</u>	<u>\$ 10,920,558</u>	<u>\$ 9,746,428</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, 2018

(With Comparative Totals for September 30, 2017)

	Program Services					Supporting Services				Total 2018	Total 2017
	Men's Recovery Program	Women's Recovery Program	Homeless Guest Services	Learning Center	Total	Management and General Expenses	Fundraising	Total			
Salaries	\$ 273,511	\$ 148,477	\$ 125,034	\$ 39,073	\$ 586,095	\$ 140,663	\$ 54,702	\$ 195,365	\$ 781,460	\$ 788,665	
Payroll taxes	22,504	12,216	10,288	3,215	48,223	11,573	4,501	16,074	64,297	64,365	
Employee benefits	117,824	63,961	53,862	16,832	252,479	60,595	23,565	84,160	336,639	309,756	
Total Salaries and Related Expenses	413,839	224,654	189,184	59,120	886,797	212,831	82,768	295,599	1,182,396	1,162,786	
Clothing	30,271	19,196	24,365	-	73,832	-	-	-	73,832	108,657	
Donations to charities	5,623	3,515	4,499	141	13,778	141	141	282	14,060	20,496	
Donor appeals	-	-	-	-	-	-	228,983	228,983	228,983	156,744	
Donor appeals - consultants	-	-	-	-	-	-	243,404	243,404	243,404	197,223	
Dues	3,320	1,660	-	-	4,980	11,621	-	11,621	16,601	14,291	
Equipment	1,033	649	826	89	2,597	295	59	354	2,951	1,834	
Equipment maintenance	1,547	972	1,238	133	3,890	442	88	530	4,420	56,587	
Expendable supplies	22,080	15,772	20,818	1,893	60,563	1,262	1,262	2,524	63,087	85,643	
Food	89,138	55,712	73,539	-	218,389	2,228	2,228	4,456	222,845	240,918	
Information technology	11,911	8,508	11,230	1,021	32,670	681	681	1,362	34,032	33,059	
Insurance	9,052	6,466	8,534	776	24,828	517	517	1,034	25,862	27,980	
Interest expense	13,950	9,965	13,153	1,196	38,264	797	797	1,594	39,858	39,858	
Maintenance - building	244	175	230	21	670	14	14	28	698	4,103	
Miscellaneous	2,463	3,694	-	-	6,157	6,157	-	6,157	12,314	9,248	
Office supplies	1,857	1,061	265	265	3,448	1,322	531	1,853	5,301	4,878	
Postage	2,732	1,561	-	390	4,683	1,561	1,561	3,122	7,805	6,340	
Printing	4,897	3,265	-	742	8,904	4,452	1,484	5,936	14,840	16,540	
Professional Fees	1,775	887	-	-	2,662	41,710	-	41,710	44,372	41,598	
Program supplies	70,209	56,962	-	5,299	132,470	-	-	-	132,470	95,275	
Taxes	207	148	195	18	568	12	12	24	592	612	
Telephone	3,058	2,379	-	426	5,863	1,699	934	2,633	8,496	10,168	
Training	3,340	1,285	64	64	4,753	1,477	193	1,670	6,423	7,435	
Transportation	9,355	5,494	-	-	14,849	-	-	-	14,849	10,316	
Utilities	40,238	28,742	37,939	3,449	110,368	2,299	2,299	4,598	114,966	153,176	
Total Expenses Before Depreciation	742,139	452,722	386,079	75,043	1,655,983	291,518	567,956	859,474	2,515,457	2,505,765	
Depreciation expense	55,594	39,710	52,417	4,765	152,486	3,177	3,177	6,354	158,840	165,300	
Total Expenses	<u>\$ 797,733</u>	<u>\$ 492,432</u>	<u>\$ 438,496</u>	<u>\$ 79,808</u>	<u>\$ 1,808,469</u>	<u>\$ 294,695</u>	<u>\$ 571,133</u>	<u>\$ 865,828</u>	<u>\$ 2,674,297</u>	<u>\$ 2,671,065</u>	
2017 Totals	<u>\$ 825,164</u>	<u>\$ 537,349</u>	<u>\$ 446,340</u>	<u>\$ 68,780</u>	<u>\$ 1,877,633</u>	<u>\$ 339,340</u>	<u>\$ 454,092</u>	<u>\$ 793,432</u>	<u>\$ 2,671,065</u>	<u>\$ 2,671,065</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, 2018
(With Comparative Totals for September 30, 2017)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,174,130	\$ 1,039,079
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	158,840	165,300
Loss on disposal of fixed assets	283	-
Changes in:		
Prepaid expenses and other assets	(2,509)	(2,525)
Pledges receivable	736,362	272,434
Accounts payable	1,158,842	(33,336)
Accrued payroll and related liabilities	6,178	6,118
Value of perpetual interest trust	97,014	(38,550)
Other accrued liabilities	(13,199)	(17,226)
Deferred revenue	440	3,000
Net Cash Provided by Operating Activities	3,316,381	1,394,294
Cash Flows From Investing Activities:		
Change in cash restricted for:		
Additions for building improvements	(5,320,185)	(1,553,153)
Use of cash for building improvements	2,101,602	226,094
Purchase of fixed assets	(5,000)	(28,761)
Net Cash Used by Investing Activities	(3,223,583)	(1,355,820)
Increase in Unrestricted Cash and Cash Equivalents	92,798	38,474
Unrestricted Cash and Cash Equivalents at Beginning of Year	245,952	207,478
Unrestricted Cash and Cash Equivalents at End of Year	\$ 338,750	\$ 245,952
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, 2018, 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, 2018, 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, 2018, 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, 2014 and 2013, 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, 2017, have been reclassified to make the reporting comparable to the balances reported for the year ended September 30, 2018.

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, 2017, 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>2018</u>
Due within one year	\$ 652,976
Due in one to five years	<u>220,800</u>
Total Pledges Receivable	873,776
Less discount to net present value	<u>(10,338)</u>
Pledges Receivable, net	<u>\$ 863,438</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, 2018, 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, 2018, to be below the Mission's original investment based on comparable market sales. As of September 30, 2018, 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: PERPETUAL INCOME TRUST INTEREST

The Mission is named as an income beneficiary of a perpetual trust, the corpus of which is not controlled by management of the Mission. Under this arrangement, the Association has the irrevocable right to receive annual distributions of income. Distributions from the trust for the year ended September 30, 2018, totaled \$132,603. The Mission is a beneficiary of this stream of income into perpetuity and therefore the value of the underlying assets held by the trustee are recorded as a permanently restricted asset as of September 30, 2018. The change in the value of the underlying assets held by the trustee is recorded annually as an increase or decrease in value of interest in the perpetual income trust.

NOTE 6: 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, 2018, 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 7: LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment at September 30, 2018 is as follows:

	<u>Estimated Useful Lives</u>	<u>2018</u>
Land	--	\$ 1,435,600
Building and improvements	40 years	5,322,409
Furniture and fixtures	7 years	185,249
Office equipment	3-5 years	52,091
Vehicles	5 years	55,724
Construction-in-progress		<u>6,063,001</u>
Total land, buildings and equipment		13,114,074
Less: accumulated depreciation		<u>(3,476,039)</u>
Net land, buildings and equipment		<u>\$ 9,638,035</u>

Depreciation expense for the year ended September 30, 2018, was \$158,840.

NOTE 8: 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. The line of credit was not renewed at August 5, 2018.

NOTE 9: 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.

The Mission has a construction loan payable to Montecito Bank & Trust with a cap of \$4,920,000. Monthly interest only payments are due at 5.05% with principal due to maturity date of March 10, 2025. The loan is secured by the Yanonali Street property. The balance due as of September 30, 2018 is \$14,357.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 10: TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018, consist of cash restricted for building improvements of \$1,211,137, and pledges of \$863,438.

Permanently restricted net assets at September 30, 2018, consist of an endowment, the income from which is unrestricted (see Note 16). Permanently restricted net assets at September 30 consist of the following:

	<u>2018</u>
Loan from endowment for ED House	\$ 520,000
Interest in perpetual trust	591,536
Endowment cash	<u>62,135</u>
Total permanently restricted net assets	<u>\$ 1,173,671</u>

NOTE 11: 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 12: RENTAL INCOME

The Mission offers sober living facilities for graduates of the Men's recovery programs. This facility has 30 beds for rent at \$600 per month. Rental income received from these facilities was \$12,575 for the year ended September 30, 2018.

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 \$23,991 for the year ended September 30, 2018.

NOTE 13: NON-CASH CONTRIBUTIONS

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

	<u>2018</u>
Contributed clothing and household items, valued at estimated thrift store value	\$ 84,245
Contributed food	<u>54,661</u>
Total	<u>\$ 138,906</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 13: NON-CASH CONTRIBUTIONS (continued)

Any unused items are donated to other nonprofit organizations, and have been recorded as donations in the amount of \$13,465 for the year ended September 30, 2018.

NOTE 14: CONCENTRATION OF CREDIT RISK

At September 30, 2018, 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 \$1,336,000 in excess of the federally insured deposit limit at September 30, 2018.

NOTE 15: EMPLOYEE BENEFIT PLAN

The Mission offers all its employees the benefits of a tax-sheltered annuity plan as described in Section 403(b) of the Internal Revenue Code. The Mission can make discretionary contributions for those who have completed one year of continuous employment. The annual contribution is generally a percentage of the employee's salary. The Mission contributed \$37,689 to the plan for the year ended September 30, 2018.

NOTE 16: 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.

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.

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 16: DONOR RESTRICTED ENDOWMENTS (continued)

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 are split proportionally based on ownership. As an incentive for continued employment, the Executive Director will get an increasing percentage interest in any appreciation on the investment beginning in August 2010 or upon funding any improvements (see Note 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, 2018, 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, 2018, and changes in endowment funds for the year then ended are as follows:

Endowment net assets, September 30, 2017	\$ 1,270,685
Change in value of interest in perpetual income trust	<u>(97,014)</u>
Endowment net assets, September 30, 2018	<u>\$ 1,173,671</u>

SANTA BARBARA RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 17: 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, 2018, no funds have been disbursed under this agreement.

NOTE 18: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 28, 2019, 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, 2018, 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 \$3,358,000 and is subject to changes as construction continues.
- Subsequent to September 30, 2018, the Mission was selected to participate in new market tax credit under Internal Revenue Code 45D. The Mission has engaged legal counsel in an effort for a successful closing date in March 2019.

NOTE 19: RESTATEMENT OF NET ASSETS

The Mission has determined they are a beneficiary of a perpetual income trust and has restated their net assets as of October 1, 2016. The increase in net assets as of October 1, 2016, is \$650,000 and represents the Mission's twenty-five percent interest in the perpetual income trust's assets. See note 5.