

**ORANGE COUNTY RESCUE MISSION, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

WITH INDEPENDENT AUDITORS' REPORT

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
TABLE OF CONTENTS
SEPTEMBER 30, 2019 AND 2018

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7

INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Rescue Mission, Inc. and Subsidiaries
Tustin, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Orange County Rescue Mission, Inc. and subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orange County Rescue Mission, Inc. and subsidiaries as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Dick Evans LLP

Irvine, California
December 17, 2019

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

ASSETS

	2019	2018
Assets:		
Cash and cash equivalents	\$ 7,444,605	\$ 8,299,908
Investments	218,376	284,555
Gift-in-kind inventory	183,416	199,140
Accounts receivable	97,794	474
Prepaid expenses	96,519	352,765
Deposits	121,000	-
Land, buildings, and equipment, at net book value	44,309,417	43,540,767
Total Assets	\$ 52,471,127	\$ 52,677,609

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 347,486	\$ 366,526
Accrued expenses	497,096	565,340
Security deposits held	19,250	21,750
Total Liabilities	863,832	953,616
Net Assets:		
Without donor restrictions	51,294,919	51,576,812
With donor restrictions	312,376	147,181
Total Net Assets	51,607,295	51,723,993
Total Liabilities and Net Assets	\$ 52,471,127	\$ 52,677,609

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

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and Other Support:						
Contributions and grants	\$ 11,550,192	\$ 312,376	\$ 11,862,568	\$ 11,344,149	\$ 2,245	\$ 11,346,394
Gift-in-kind activity	11,851,532	-	11,851,532	10,987,776	-	10,987,776
Rental income/program fees	768,717	-	768,717	654,049	-	654,049
Other	565,599	-	565,599	626,065	-	626,065
Total Revenues and Other Support	24,736,040	312,376	25,048,416	23,612,039	2,245	23,614,284
Net Assets Released from Restrictions	147,181	(147,181)	-	-	-	-
Total Revenues, Other Support, and Net Assets Released from Restrictions	24,883,221	165,195	25,048,416	23,612,039	2,245	23,614,284
Expenses:						
Program Services:						
Ministries	20,905,610	-	20,905,610	19,225,212	-	19,225,212
Supporting Services:						
General and administrative	938,779	-	938,779	1,523,038	-	1,523,038
Fundraising	3,320,725	-	3,320,725	2,693,801	-	2,693,801
Total Supporting Services	4,259,504	-	4,259,504	4,216,839	-	4,216,839
Total Expenses	25,165,114	-	25,165,114	23,442,051	-	23,442,051
Increase (Decrease) in Net Assets	(281,893)	165,195	(116,698)	169,988	2,245	172,233
Net Assets, Beginning of Year	51,576,812	147,181	51,723,993	51,406,824	144,936	51,551,760
Net Assets, End of Year	<u>\$ 51,294,919</u>	<u>\$ 312,376</u>	<u>\$ 51,607,295</u>	<u>\$ 51,576,812</u>	<u>\$ 147,181</u>	<u>\$ 51,723,993</u>

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

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Year Ended September 30, 2019				Year Ended September 30, 2018			
	Supporting Services				Supporting Services			
	Program Services Ministries	General and Administrative	Fundraising	Total	Program Services Ministries	General and Administrative	Fundraising	Total
Direct assistance - food, clothing, health-care education, recreation, childcare	\$ 12,894,131	\$ -	\$ -	\$ 12,894,131	\$ 12,049,617	\$ -	\$ -	\$ 12,049,617
Compensation and related expenses	3,814,470	463,094	716,555	4,994,119	3,209,735	442,484	703,688	4,355,907
Depreciation	1,461,679	23,707	25,769	1,511,155	1,471,174	33,408	11,392	1,515,974
Public education	-	-	46,072	46,072	-	39,182	20,880	60,062
Occupancy, utilities, and maintenance	1,358,607	18,863	17,635	1,395,105	1,278,568	23,936	7,891	1,310,395
Direct marketing	-	-	2,363,182	2,363,182	-	197,414	1,829,421	2,026,835
Professional fees	142,077	343,642	56,901	542,620	129,284	666,472	16,830	812,586
Supplies	373,913	75,250	79,570	528,733	366,747	68,805	64,977	500,529
Information technologies	294,480	5,477	11,401	311,358	219,361	45,584	32,608	297,553
Insurance	181,665	3,349	3,640	188,654	169,130	4,574	1,560	175,264
Vehicles	180,348	-	-	180,348	140,059	47	3,943	144,049
Dues, subscriptions, and training	13,273	-	-	13,273	5,075	1,132	611	6,818
Other	190,967	5,397	-	196,364	186,462	-	-	186,462
Total Expenses	\$ 20,905,610	\$ 938,779	\$ 3,320,725	\$ 25,165,114	\$ 19,225,212	\$ 1,523,038	\$ 2,693,801	\$ 23,442,051

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

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ (116,698)	\$ 172,233
Noncash Items Included in Increase (Decrease) in Net Assets:		
Donated inventory	(7,777,306)	(7,496,654)
Distributed inventory	7,793,030	7,533,051
Depreciation	1,511,155	1,515,974
Donated assets	-	(34,259)
(Gain) loss on investments	-	51,000
Changes in:		
Accounts receivable	(97,320)	5,827
Prepaid expenses	256,246	(115,431)
Deposits and security deposits	(123,500)	2,000
Accounts payable	(19,040)	232,347
Accrued expenses	(68,244)	266,018
Net Cash and Cash Equivalents Provided by Operating Activities	1,358,323	2,132,106
Cash Flows from Investing Activities:		
Proceeds from sale of investments	66,179	1,006,159
Purchase of property and equipment	(2,279,805)	(640,151)
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	(2,213,626)	366,008
Net Increase (Decrease) in Cash and Cash Equivalents	(855,303)	2,498,114
Cash and Cash Equivalents, Beginning of Year	8,299,908	5,801,794
Cash and Cash Equivalents, End of Year	\$ 7,444,605	\$ 8,299,908
Supplemental Disclosure:		
Interest paid	\$ -	\$ -

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

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies

Nature of Organization

Orange County Rescue Mission, Inc. (“OCRM”) was formed to provide emergency and transitional care for homeless individuals and families. OCRM’s mission is to minister the love of Jesus Christ to the least, the last, and the lost of the community through the provision of assistance in the areas of guidance, counseling, education, job training, shelter, food, clothing, health care, and independent living.

Expenses related to providing this care have been recorded as program services in the accompanying consolidated financial statements. OCRM was incorporated as a nonprofit organization under the laws of the State of California on April 21, 1965.

OCRM’s philosophy of ministry is to operate in a dynamic, entrepreneurial manner, thereby expecting to grow and expand numerically, programmatically, and geographically. OCRM seeks to be constantly challenged with a fresh vision and well-prepared strategies, which originate with the president and senior professional staff, that are refined, confirmed, and approved by the board of directors.

OCRM’s values as an organization are to provide inspiration of hope in those it serves, excellence in everything it does, leadership centered on servanthood, respect for each person as an individual, and integrity and accountability, while moving persons toward self-sufficiency with a commitment to spiritual, emotional, social, and vocational growth and maintaining an environment that fosters teamwork, success, and trust.

OCRM is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and comparable state laws. However, OCRM is subject to federal income tax on any unrelated business taxable income. In addition, OCRM is not classified as a private foundation within the meaning of Section 509(a) of the IRC. Contributions by the public are eligible to be deducted for income tax purposes.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). References to the “ASC” hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative US GAAP.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

For the years ended September 30, 2019 and 2018, the consolidated financial statements include the accounts of OCRM, Inland Empire Rescue Mission (“IERM”), Laurel House (“LH”), and Temporary Shelter, Inc. (collectively referred to as the “Organization”). IERM also does business as Corona Norco Rescue Mission and Temecula Murrieta Rescue Mission. Hope Family Housing did not have any activity during the year ended September 30, 2018, and was renamed Temporary Shelter, Inc. in late 2018. During the year ended September 30, 2015, the Organization was given control over LH, which is consolidated within these financial statements. LH is an organization dedicated to assisting at-risk teenage girls and boys, that fits within the mission of the Organization.

Financial Statement Presentation

The Organization’s consolidated financial statements are presented in conformity with FASB Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Descriptions of the two net asset categories are as follows:

- *Net Assets without Donor Restrictions* - Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions, including the carrying value of all unrestricted physical properties (land, building, and equipment). Items that affect (i.e., increase or decrease) this net asset category include revenue and contributions related to expenses associated with core programs.
- *Net Assets with Donor Restrictions* - Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity but permit an organization to use or expend part or all the income derived from the contribution. Donor-imposed restrictions are released when a restriction expires (that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both).

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Contributions and Grants

Contributions and grants are recognized when the donor makes a promise to give to an organization that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions and grants are reported as increases in net assets with donor restrictions depending on the nature of the restrictions.

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

Use of Estimates

The preparation of the consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of financial position and cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of twelve months or less to be cash equivalents. Deposits with various banks and broker dealers may, at times, exceed federally insured limits. The Organization has not experienced any losses on these accounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in other income in the accompanying consolidated statements of activities. Adjustments to the valuation of investments are included in other income in the consolidated statements of activities.

Donated Goods and Gift-in-Kind Inventory

Material gifts in kind are used in the Organization's programs. Donated goods are recorded at fair market value on the date of the donation as in-kind contributions and, when distributed, as program services in the consolidated statements of activities. Gift-in-kind inventory consists of donated goods used in the operation of the Organization's programs. A physical count of items on hand at the end of the year is performed to determine the inventory value as stated at fair value in the consolidated statements of financial position at September 30, 2019 and 2018.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Donated Services

Donated services are a significant part of the Organization's operations and are reported as contributions at their fair market value if such services create or enhance nonfinancial assets, require specialized skills, and are provided by individuals possessing such specialized skills. Such items are charged to operations as appropriate. Management's estimated amount of the fair value of recognized services for the years ended September 30, 2019 and 2018, was \$4,074,225 and \$3,526,491, respectively, which is included in gift-in-kind activity in the consolidated statements of activities.

In addition to these specialized donated services, the Organization tracks the significant investment of time by the thousands of other volunteers and program participants. If not for these volunteer hours, the Organization would have been required to purchase equivalent services. Management has estimated the value of such services for the years ended September 30, 2019 and 2018, to be \$5,471,141 and \$4,708,124, respectively. These amounts have not been recorded in the consolidated statements of activities, as they do not meet the requirements described above. The value of these volunteer hours was established based upon the type of volunteer time given and the hourly value of such time as determined by the US Department of Labor.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost when purchased. Donations of property and equipment are recorded at their estimated fair value on the date of the donation. Estimated useful lives used for depreciation are as follows:

<u>Asset Type</u>	<u>Useful Life</u>	<u>Depreciation Method</u>
Buildings	27-40 years	Straight line
Building improvements	7 years	Straight line
Equipment and furniture	5-10 years	Straight line
Vehicles	5 years	Straight line

Land and artwork have indefinite useful lives and are not depreciated.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising costs for the years ended September 30, 2019 and 2018, were \$758,535 and \$757,898, respectively.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Financial and nonfinancial assets and liabilities are recorded at their fair market value in accordance with FASB ASC 820, *Fair Value Measurements*. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized in the following levels:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Directly or indirectly observable inputs for quoted and other-than-quoted prices for identical or similar assets and liabilities in active or nonactive markets.
- Level 3: Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity's own data.

The fair value of assets measured on a recurring basis at September 30, 2019, is as follows:

		<u>Fair Value Measurement Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Aegis Asset Backed Securities, LLC	\$ 200,000	\$ -	\$ 200,000	\$ -
Money market accounts	<u>18,376</u>	<u>18,376</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 218,376</u>	<u>\$ 18,376</u>	<u>\$ 200,000</u>	<u>\$ -</u>

The Aegis Asset Backed Securities are trust deed notes receivables and are valued primarily utilizing inputs and assumptions that are observable in the marketplace or a current appraised value, that can be derived from observable market data or that can be corroborated by recent trading activity of similar instruments with similar characteristics.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

The fair value of assets measured on a recurring basis at September 30, 2018, is as follows:

	<u>Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market accounts	\$ 284,555	\$ 284,555	\$ -	\$ -

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expense. Accordingly, certain costs have been allocated among programs and supporting activities based on direct costs, square footage of office space used and estimates of time spent in each functional area. Expenses allocated using direct costs are: newsletters and the annual report expenses. Costs allocated based on square footage are: depreciation, insurance, maintenance, utilities, IT-related services, IT salaries and fringe benefits. Costs allocated based on time estimates are executive salaries and fringe benefits.

Recent Accounting Pronouncements - Not Yet Required

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes new revenue recognition guidance (“ASC 606”), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASC 606 on the presentation of its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with subsequent improvements and corrections issued in ASU 2018-01, ASU 2018-10, and ASU 2018-20. ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020; however, early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its consolidated financial statements.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements - Not Yet Required (Continued)

In June 2019, the FASB issued ASU 2019-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2019-08 clarifies and improves the scope and accounting guidance for contributions received and contributions made. This update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2019-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2019-08 on the presentation of its consolidated financial statements.

Recent Accounting Pronouncements - Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes the current guidance for asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity, and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: net assets without donor restrictions and net assets with donor restrictions. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations. ASU 2016-14 requires not-for-profit organizations to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated.

In addition, ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and supporting functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the statement of financial position date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Organization has adopted the provisions of ASU 2016-14 and applied this standard to the financial statements as of and for the year ended September 30, 2019.

As originally stated:

Net Asset, Beginning of Year:	
Unrestricted	\$ 51,576,812
Temporarily restricted	<u>147,181</u>
Total Net Assets, Beginning of Year	<u>\$ 51,723,993</u>

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements - Adopted (Continued)

As restated:

Net Asset, Beginning of Year:	
Without donor restrictions	\$ 51,576,812
With donor restrictions	<u>147,181</u>
Total Net Assets, Beginning of Year	<u>\$ 51,723,993</u>

The total net assets as of September 30, 2018, did not change as a result of the adoption of FASB ASU 2016-14.

Note 2: Liquidity

The Organization's financial assets available for general expenditure (that is, without donor or other restrictions limiting their use), within one year of the statement of financial position date, are as follows as of September 30, 2019:

Cash and cash equivalents	\$ 5,632,230
Investments	218,376
Accounts receivable	<u>97,794</u>
Total Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 5,948,400</u>

Note 3: Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 18,302,303	\$ 18,026,296
Buildings and improvements	35,990,385	34,639,686
Equipment and furniture	3,664,129	3,357,414
Artwork	1,399,224	1,399,224
Vehicles	731,960	593,653
Construction in progress	<u>57,851</u>	<u>-</u>
Subtotal	60,145,852	58,016,273
Less: Accumulated depreciation	<u>(15,836,435)</u>	<u>(14,475,506)</u>
Land, Buildings, and Equipment, at Net Book Value	<u>\$ 44,309,417</u>	<u>\$ 43,540,767</u>

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 4: Contingent Liabilities

In an effort to provide longer term transitional housing, the Organization has acquired properties that are available for rent at affordable rates. Residents must fall within certain income or demographic guidelines, and rent is set based upon family size and income. As part of the acquisition of these properties, the Organization received grants from various entities. In order to ensure that the properties are used for the intended purpose of affordable housing, the respective granting agencies placed deed restrictions on the properties and recorded a promissory note. Over time, these promissory notes will be forgiven and the deed restrictions will be lifted. The Organization's purpose and mission is to provide this type of transitional housing to at risk families; therefore, the possibility of defaulting on these agreements and not providing transitional housing has been deemed remote. As a result, the funds received from the grants have been recognized as income and no debt obligation has been recorded on the books. Management is not aware of any violations of these agreements.

The contingent liability if the Organization were to default on these notes is disclosed below.

Hope Family Housing El Modena - County of Orange

The Organization has a 3 percent promissory note due in 2053 to the County of Orange, which is payable in annual installments of \$32,647. It is secured by a deed of trust on the property known as Hope Family Housing - El Modena. The Organization is not obliged to make payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing as defined in the loan agreement.

Hope Family Housing Buena Park - City of Buena Park

The Organization has a 3 percent promissory note due in 2062 to the Community Redevelopment Agency of the City of Buena Park, which is payable in annual interest-only installments of \$30,756. It is secured by a deed of trust on the property known as Hope Family Housing - Buena Park. The Organization is not obliged to make payments of principal or interest during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing as defined in the loan agreement. Interest will continue to accrue each year until the due date.

Hope Family Housing Buena Park - Prop 10 Commission

The Organization has an interest-free promissory note due in 2038 with the Children and Families Commission of Orange County (Prop 10). It is secured by a deed of trust on the property known as Hope Family Housing - Buena Park. The Organization is not obliged to make principal or interest payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for families with children ages 0-5 as defined in the loan agreement. On an annual basis, a credit is applied based on the number of units occupied by families with children ages 0-5 and this amount decreases the principal balance.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 4: Contingent Liabilities (Continued)

Hope Family Housing Murrieta - County of Riverside

The Organization has an interest-free promissory note due in 2067 with the Redevelopment Agency of the County of Riverside. It is secured by a deed of trust on four homes that are used as transitional housing. The Organization is not obliged to make principal or interest payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for families.

Hope Family Housing Corona - City of Corona

The Organization has an interest-free promissory note due in April 2069 with the City of Corona. It is secured by a deed of trust on two buildings located at 926 and 932 W 5th Street, Corona, California, that are composed of 12 apartments. The Organization is not obliged to make principal or interest payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for families. At the end of the 55-year term, the amount of the note is forgiven in full.

Hope Family Veterans Housing - City of Tustin

The Organization has a 3 percent promissory note due in 2045 to the City of Tustin, a California municipal corporation. Forgiven annually is 1/30th of the principal and interest balance. It is secured by a deed of trust on the property known as Hope Family Veteran Housing. The Organization is not obliged to make payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for veterans as defined in the loan agreement.

At September 30, 2019 and 2018, the outstanding balances and accrued interest, if applicable, are as follows:

	<u>2019</u>	<u>2018</u>
Hope Family Housing El Modena - County of Orange	\$ 689,891	\$ 701,493
Hope Family Housing Buena Park - City of Buena Park	1,406,700	1,375,944
Hope Family Housing Buena Park - Prop 10 Commission	414,157	531,610
Hope Family Housing Murrieta - County of Riverside	996,000	996,000
Hope Family Housing Corona - City of Corona	459,961	459,961
Hope Family Veterans Housing - City of Tustin	<u>477,144</u>	<u>490,033</u>
Total	<u>\$ 4,443,853</u>	<u>\$ 4,555,041</u>

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 5: Net Assets

Net assets consist of the following at September 30, 2019 and 2018:

	2019	2018
Net assets without donor restrictions:		
Investment in land, buildings, and equipment	\$ 44,309,417	\$ 43,540,767
Board-designated expansion fund	1,500,000	1,500,000
Available for programs	5,485,502	6,536,045
 Total Net Assets without Donor Restrictions	 \$ 51,294,919	 \$ 51,576,812
 Net assets with donor restrictions:		
Housing Acquisition Fund	\$ 312,376	\$ 147,181

Note 6: Employee Benefit Plan

The Organization maintains a tax-deferred annuity plan qualified under Section 403(b) of the IRC. The plan covers all full-time employees of the Organization. Employees may make contributions to the plan immediately upon starting employment for up to the maximum amount allowed by the IRC. The Organization contributes 50 percent of the employee’s contribution for eligible employees. Employer contributions to this plan for the years ended September 30, 2019 and 2018, were \$97,944 and \$64,386 respectively.

The Organization also maintains a tax-deferred annuity plan qualified under Section 457 of the IRC. The plan covers certain full-time employee directors of the Organization. These employees may make contributions to the plan beginning in the calendar year following the employee’s first anniversary for up to the maximum amount allowed by the IRC. The Organization contributes 50 percent of the eligible employee’s contribution. Employer contributions to this plan for the years ended September 30, 2019 and 2018, were \$35,520 and \$33,351, respectively.

Note 7: Related-Party Transactions

A board member provided legal services in the amount of \$6,228 and \$4,488 for the years ended September 30, 2019 and 2018, respectively.

OCRM maintains a close financial relationship with Hurtt Family Health Clinic (the “Clinic”) through a shared-services agreement and a lease agreement for use of space at the Village of Hope, which is owned and operated by OCRM. Total amounts reimbursed for shared services were \$824,441 and \$700,014 for the years ended September 30, 2019 and 2018, respectively. Rental income received was \$158,116 and \$157,944 for the years ended September 30, 2019 and 2018, respectively.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Note 8: Subsequent Events

Subsequent events were evaluated through December 17, 2019, which is the date the consolidated financial statements were available to be issued.

The Organization has entered into escrow to purchase three fourplexes adjacent to the two existing Tustin Veterans Outpost fourplexes. This purchase will increase the capacity to serve the homeless veteran population of Orange County. The \$4,000,000 to purchase the homes was donated in October 2019.