

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

**CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2020 AND 2019  
WITH INDEPENDENT AUDITORS' REPORT**



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**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**  
**SEPTEMBER 30, 2020 AND 2019**

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
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 statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 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 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 auditor considers 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.

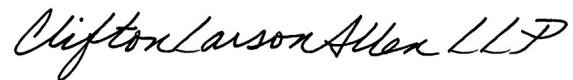
## **Opinion**

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, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Report on Comparative Information*

The consolidated financial statements as of September 30, 2019, were audited by White Nelson Diehl Evans LLP, whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2020, and has subsequently ceased operations. White Nelson Diehl Evans LLP's report dated December 17, 2019, expressed an unmodified opinion on those statements. The comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Irvine, California  
January 18, 2021

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2020 AND 2019**

**ASSETS**

	2020	2019
Assets:		
Cash and cash equivalents	\$ 9,450,739	\$ 7,444,605
Investments	370,097	218,376
Gift-in-kind inventory	183,256	183,416
Accounts receivable	166,725	97,794
Prepaid expenses	101,774	96,519
Deposits	1,000	121,000
Land, buildings, and equipment, at net book value	47,187,274	44,309,417
Total Assets	\$ 57,460,865	\$ 52,471,127

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 352,392	\$ 331,419
Accrued expenses	692,559	518,413
Note payable	865,200	-
Security deposits held	15,500	14,000
Total Liabilities	1,925,651	863,832
Net Assets:		
Without donor restrictions	55,222,838	51,294,919
With donor restrictions	312,376	312,376
Total Net Assets	55,535,214	51,607,295
Total Liabilities and Net Assets	\$ 57,460,865	\$ 52,471,127

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, 2020 AND 2019**

	Year Ended September 30, 2020			Year Ended September 30, 2019		
	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	\$ 17,925,173	\$ -	\$ 17,925,173	\$ 11,550,192	\$ 312,376	\$ 11,862,568
Gift-in-kind contributions	11,690,556	-	11,690,556	11,851,532	-	11,851,532
Rental income/program fees	1,121,850	-	1,121,850	768,717	-	768,717
Other	402,042	-	402,042	565,599	-	565,599
Total Revenues and Other Support	31,139,621	-	31,139,621	24,736,040	312,376	25,048,416
Net Assets Released from Restrictions	-	-	-	147,181	(147,181)	-
Total Revenues, Other Support, and Net Assets Released from Restrictions	31,139,621	-	31,139,621	24,883,221	165,195	25,048,416
Expenses:						
Program Services:						
Ministries	22,825,164	-	22,825,164	20,905,610	-	20,905,610
Supporting Services:						
General and administrative	971,588	-	971,588	938,779	-	938,779
Fundraising	3,414,950	-	3,414,950	3,320,725	-	3,320,725
Total Supporting Services	4,386,538	-	4,386,538	4,259,504	-	4,259,504
Total Expenses	27,211,702	-	27,211,702	25,165,114	-	25,165,114
Increase (Decrease) in Net Assets	3,927,919	-	3,927,919	(281,893)	165,195	(116,698)
Net Assets, Beginning of Year	51,294,919	312,376	51,607,295	51,576,812	147,181	51,723,993
Net Assets, End of Year	<u>\$ 55,222,838</u>	<u>\$ 312,376</u>	<u>\$ 55,535,214</u>	<u>\$ 51,294,919</u>	<u>\$ 312,376</u>	<u>\$ 51,607,295</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, 2020 AND 2019**

	Year Ended September 30, 2020				Year Ended September 30, 2019			
	Program Services	Supporting Services			Program Services	Supporting Services		
	Ministries	General and Administrative	Fundraising	Total	Ministries	General and Administrative	Fundraising	Total
Direct assistance - food, clothing, health-care education, recreation, childcare	\$ 14,245,932	\$ -	\$ -	\$ 14,245,932	\$ 12,894,131	\$ -	\$ -	\$ 12,894,131
Compensation and related expenses	4,093,370	549,952	961,282	5,604,604	3,814,470	463,094	716,555	4,994,119
Depreciation	1,517,032	25,495	27,712	1,570,239	1,461,679	23,707	25,769	1,511,155
Public education	-	-	253,701	253,701	-	-	46,072	46,072
Occupancy, utilities, and maintenance	1,467,055	15,849	17,065	1,499,969	1,358,607	18,863	17,635	1,395,105
Direct marketing	-	-	2,055,617	2,055,617	-	-	2,363,182	2,363,182
Professional fees	141,503	267,683	10,560	419,746	142,077	343,642	56,901	542,620
Supplies	550,969	92,352	56,431	699,752	373,913	75,250	79,570	528,733
Information technologies	291,697	6,145	28,544	326,386	294,480	5,477	11,401	311,358
Insurance	199,609	3,715	4,038	207,362	181,665	3,349	3,640	188,654
Vehicles	186,100	-	-	186,100	180,348	-	-	180,348
Dues, subscriptions, and training	10,998	-	-	10,998	13,273	-	-	13,273
Other	120,899	10,397	-	131,296	190,967	5,397	-	196,364
<b>Total Expenses</b>	<b>\$ 22,825,164</b>	<b>\$ 971,588</b>	<b>\$ 3,414,950</b>	<b>\$ 27,211,702</b>	<b>\$ 20,905,610</b>	<b>\$ 938,779</b>	<b>\$ 3,320,725</b>	<b>\$ 25,165,114</b>

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, 2020 AND 2019**

	2020	2019
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 3,927,919	\$ (116,698)
Noncash Items Included in Increase (Decrease) in Net Assets:		
Donated inventory	(8,142,503)	(7,777,306)
Distributed inventory	8,142,663	7,793,030
Depreciation	1,570,239	1,511,155
Donated stock	(154,491)	-
Loss on investments	2,770	-
Donated assets - City of Corona	1,496,497	
Changes in:		
Accounts receivable	(68,931)	(97,320)
Prepaid expenses	(5,255)	256,246
Deposits and security deposits	121,500	(123,500)
Accounts payable	20,973	(19,040)
Accrued expenses	174,146	(68,244)
Net Cash and Cash Equivalents Provided by Operating Activities	7,085,527	1,358,323
Cash Flows from Investing Activities:		
Proceeds from sale of investments	-	66,179
Purchase of property and equipment	(5,944,593)	(2,279,805)
Net Cash and Cash Equivalents Used in Investing Activities	(5,944,593)	(2,213,626)
Cash Flows from Financing Activities:		
Proceeds from Paycheck Protection Program loan	865,200	-
Net Increase (Decrease) in Cash and Cash Equivalents	2,006,134	(855,303)
Cash and Cash Equivalents, Beginning of Year	7,444,605	8,299,908
Cash and Cash Equivalents, End of Year	\$ 9,450,739	\$ 7,444,605
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, 2020 AND 2019**

**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 consolidated 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, 2020 AND 2019**

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

**Principles of Consolidation**

For the years ended September 30, 2020 and 2019, the consolidated financial statements include the accounts of OCRM, Inland Empire Rescue Mission (“IERM”), Laurel House (dba Hope Harbor) (“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. 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, 2020 AND 2019**

**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. Conditional contributions and grants are recognized when the conditions for which they depend are substantially met.

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 12 months or less to be cash and 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, 2020 and 2019.

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

**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, 2020 and 2019, was \$3,548,053 and \$4,074,225, 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, 2020 and 2019, to be \$4,698,077 and \$5,471,141, 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, 2020 and 2019, were \$436,253 and \$758,535, respectively.

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

**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, 2020, is as follows:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments:				
Aegis Asset Backed Securities, LLC	\$ 200,000	\$ -	\$ 200,000	\$ -
Money market accounts	170,097	170,097	-	-
Total	\$ 370,097	\$ 170,097	\$ 200,000	\$ -

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, 2020 AND 2019**

**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, 2019, is as follows:

	<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>

**Functional Allocation of Expenses**

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services 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 annual report expenses. Costs allocated based on square footage are depreciation, insurance, maintenance, utilities, information technology (“IT”) related services, IT salaries, and fringe benefits. Costs allocated based on time estimates are executive salaries and fringe benefits.

**Risks and Uncertainties**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of an outbreak of a new strain of coronavirus (“COVID-19”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase of the virus and its global exposure. In addition, several US states, including California where the Organization is headquartered, have declared a state of emergency.

The Organization is substantially supported by contributions and grants. At this time, the Organization cannot anticipate all the ways in which a health pandemic such as COVID-19 can adversely impact it. Although management is continuing to monitor and assess the effects of the COVID-19 pandemic on the Organization, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

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

**New Accounting Pronouncement - Adopted**

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2018-08 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. There was not a material impact to the consolidated financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

**New Accounting Pronouncement - Not Yet Adopted**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 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 for 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, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. 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, 2021; 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, 2020 AND 2019**

**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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 7,638,364	\$ 5,632,230
Investments	370,097	218,376
Accounts receivable	<u>166,724</u>	<u>97,794</u>
Total Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 8,175,185</u>	<u>\$ 5,948,400</u>

**Note 3: Land, Buildings, and Equipment**

Land, buildings, and equipment consist of the following at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 19,448,292	\$ 18,302,303
Buildings and improvements	37,088,962	35,990,385
Equipment and furniture	3,951,829	3,664,129
Artwork	1,399,224	1,399,224
Vehicles	972,105	731,960
Construction in progress	<u>792,235</u>	<u>57,851</u>
Subtotal	63,652,651	60,145,852
Less: Accumulated depreciation	<u>(16,465,377)</u>	<u>(15,836,435)</u>
Land, Buildings, and Equipment, at Net Book Value	<u>\$ 47,187,274</u>	<u>\$ 44,309,417</u>

On December 19, 2018, LH purchased a residence to convert into a teenage boy's home similar to its girl's home. The construction/remodeling of the residence is expected to be completed in January 2021.

**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.



**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

**Note 4: Contingent Liabilities (Continued)**

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. 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% 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% 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.

***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.

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

**Note 4: Contingent Liabilities (Continued)**

***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. During the year ended September 30, 2020, the Organization decided to discontinue the operations in Corona and donated the property back to the City of Corona. The transaction resulted in donated asset expense of \$1,496,498 and is reported on the consolidated statement of activities for the year ended September 30, 2020.

***Hope Family Veterans Housing - City of Tustin***

The Organization has a 3% 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 Veterans 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, 2020 and 2019, the outstanding balances and accrued interest, if applicable, are as follows:

	<u>2020</u>	<u>2019</u>
Hope Family Housing El Modena - County of Orange	\$ 677,940	\$ 689,891
Hope Family Housing Buena Park - City of Buena Park	1,437,456	1,406,700
Hope Family Housing Buena Park - Prop 10 Commission	414,157	414,157
Hope Family Housing Murrieta - County of Riverside	996,000	996,000
Hope Family Housing Corona - City of Corona	-	459,961
Hope Family Veterans Housing - City of Tustin	<u>463,878</u>	<u>477,144</u>
Total	<u>\$ 3,989,431</u>	<u>\$ 4,443,853</u>

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

**Note 5: Note Payable**

On April 28, 2020, the Organization signed a loan agreement through a financial institution to obtain \$865,200 in funding for a Paycheck Protection Program (“PPP”) loan through the Coronavirus Aid, Relief, and Economic Security Act. The loan qualifies for forgiveness if requirements set by the Small Business Administration (“SBA”) are met. The loan agreement provides for loan forgiveness up to the full amount of the loan. The Paycheck Protection Program Flexibility Act of 2020 extends the deferral period for borrower payments of principal, interest, and fees on all PPP loans to the date that the SBA remits the borrower’s loan forgiveness amount to the lender. The Organization believes that it will meet the loan stipulations for full forgiveness.

**Note 6: Net Assets**

Net assets consist of the following at September 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions:		
Investment in land, buildings, and equipment	\$ 47,187,274	\$ 44,309,417
Board-designated expansion fund	1,500,000	1,500,000
Available for programs	6,535,564	5,485,502
 Total Net Assets without Donor Restrictions	 \$ 55,222,838	 \$ 51,294,919
 Net assets with donor restrictions:		
Housing Acquisition Fund	\$ 312,376	\$ 312,376

**Note 7: 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% of the employee’s contribution for eligible employees. Employer contributions to this plan for the years ended September 30, 2020 and 2019, were \$122,077 and \$97,944, 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% of the eligible employee’s contribution. Employer contributions to this plan for the years ended September 30, 2020 and 2019, were \$18,621 and \$35,520, respectively.

**ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND 2019**

**Note 8: Related-Party Transactions**

A board member provided legal services in the amount of \$2,541 and \$6,228 for the years ended September 30, 2020 and 2019, 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 and a lease agreement for the property El Modena (the “Pearl House”) located in Buena Park. Total amounts reimbursed for shared services were \$670,901 and \$824,441 for the years ended September 30, 2020 and 2019, respectively. Rental income received for the years ended September 30, 2020 and 2019, was \$162,644 and \$158,116, respectively, for the Village of Hope and \$465,264 and \$123,516, respectively, for Pearl House.

**Note 9: Subsequent Events**

Subsequent events were evaluated through January 18, 2021, which is the date the consolidated financial statements were available to be issued.

On December 16, 2020, escrow was closed on the St. Michael’s Abbey located at 19292 El Toro Road, Silverado, CA 92676. The property consists of 33 acres of land and multiple buildings. The purchase price was \$11,700,000. The purchase price was paid in full without incurring debt. The Abby will be used to expand the outreach of the mission, which 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 communities.

