HARBOR INTERFAITH SERVICES, INC.
(A Non-Profit Organization)

FINANCIAL STATEMENTS

For The Year Ended December 31, 2018

with

INDEPENDENT AUDITORS' REPORT THEREON

INDEX

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harbor Interfaith Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Interfaith Services, Inc. (a non-profit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 auditors' 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Interfaith Services, Inc. as of December 31, 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.

Other Matter

The financial statements of the Organization for the year ended December 31, 2017, before the restatement described in Note 10, were audited by another auditor whose report dated October 23, 2018, expressed an unmodified opinion on those statements.

As part of our audit of the December 31, 2018 financial statements, we also audited the adjustments described in Note 10 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

KMJ Corbin & Company LLP

KMJ Corbin & Company LLP

Costa Mesa, California
December 20, 2019

STATEMENT OF FINANCIAL POSITION

	December 31, 2018
ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,367,297
Grants and contributions receivable	1,901,139
Prepaid expenses and other assets	117,182
Total current assets	4,385,618
Property and equipment, net	7,159,397
Total assets	$ 11,545,015
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 246,285
Accrued expenses	155,704
Client deposits	21,693
Deferred revenue	2,465,066
Current portion of note payable	60,360
Total current liabilities	2,949,108
Note payable, net of current portion	83,125
Total liabilities	3,032,233
Commitments and contingencies	
Net assets:	
Without donor restrictions	7,244,458
With donor restrictions	1,268,324
Total net assets	8,512,782
Total liabilities and net assets	$ 11,545,015

STATEMENT OF ACTIVITIES

	For The Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Government grants	$ 5,760,937	$ -	$ 5,760,937
Church and other organizations	439,594	540,874	980,468
Contributions	307,560	1,000,000	1,307,560
In-kind donations	31,330	-	31,330
Rental income	67,568	-	67,568
Interest income	195	-	195
Special events	95,347	-	95,347
Net assets released from restrictions	272,550	(272,550)	-
Total support and revenue	6,975,081	1,268,324	8,243,405
Expenses:			
Program services:			
CES Families	2,809,488	-	2,809,488
Children's Center	478,350	-	478,350
CES Adult	2,205,138	-	2,205,138
Accelerated Learning and Living	176,908	-	176,908
Family Shelter	481,136	-	481,136
Family Resource Center	812,885	-	812,885
	6,963,905	-	6,963,905
General and Administrative	112,557	-	112,557
Fundraising and Development	267,986	-	267,986
Total expenses	7,344,448	-	7,344,448
Change in net assets	$ (369,367)	$ 1,268,324	$ 898,957

STATEMENT OF NET ASSETS

	For The Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year, as previously reported	$ 7,981,979	$ -	$ 7,981,979
Prior period adjustments	(368,154)	-	(368,154)
Net assets, beginning of year, as restated	7,613,825	-	7,613,825
Change in net assets	(369,367)	1,268,324	898,957
Net assets, end of year	$ 7,244,458	$ 1,268,324	$ 8,512,782

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018

	CES Families	Children's Center	CES Adult	Accelerated Learning and Living	Family Shelter	Family Resource Center	Total Program Services	General and Administrative	Fundraising	Total
Salaries and payroll related services	$ 653,043	$ 313,986	$ 1,006,286	$ 47,409	$ 162,487	$ 268,884	$ 2,452,095	$ -	$ 149,067	$ 2,601,162
Auxiliary	-	-	-	-	-	-	-	-	26,320	26,320
Legal and accounting	2,788	2,603	5,012	5,262	372	-	16,037	9,266	-	25,303
Bank fees	-	-	50	-	-	-	50	18,544	-	18,594
Board expenses	-	-	-	-	-	-	-	577	-	577
Dues and subscriptions	-	-	141	-	-	15	156	1,013	3,131	4,300
Grant writing	-	-	-	-	-	-	-	-	45,000	45,000
Insurance	380	8,821	1,987	9,207	4,178	6,887	31,460	9,233	1,783	42,476
Maintenance	10,197	11,006	16,350	31,849	29,745	18,911	118,058	2,407	578	121,043
Postage	181	20	115	22	-	35	373	570	3,522	4,465
Printing	207	-	394	-	34	-	635	302	5,054	5,991
Promotion and fundraising expense	-	-	-	372	270	-	642	1,379	26,694	28,715
Property management	-	-	-	8,800	-	-	8,800	-	-	8,800
Rent	21,277	-	23,206	-	-	-	44,483	-	-	44,483
Property taxes	-	747	950	1,750	-	819	4,266	795	38	5,099
Supplies	37,215	5,041	141,729	406	1,574	39,375	225,340	26,807	2,659	254,806
Subcontractor expenses	309,728	-	450,217	-	-	44,977	804,922	-	-	804,922
Technology	10,995	5,645	57,436	806	1,206	5,411	81,499	2,565	1,613	85,677
Telephone	852	4,171	17,475	3,831	14,859	3,591	44,779	1,834	877	47,490
Travel expenses	7,575	-	18,574	184	233	1,739	28,305	363	847	29,515
Utilities	6,381	15,762	4,641	22,835	22,027	21,551	93,197	5,264	803	99,264
Aid to clients	1,684,009	-	448,385	8,480	240,826	301,436	2,683,136	-	-	2,683,136
In-kind donation	3,325	-	5,009	1,788	3,325	17,786	31,233	97	-	31,330
Depreciation expense	61,335	110,548	7,181	33,907	-	81,468	294,439	31,541	-	325,980
Total	$ 2,809,488	$ 478,350	$ 2,205,138	$ 176,908	$ 481,136	$ 812,885	$ 6,963,905	$ 112,557	$ 267,986	$ 7,344,448

STATEMENT OF CASH FLOWS

	For The Year Ended December 31, 2018
Cash flows from operating activities:	
Change in net assets	$ 898,957
Adjustments to reconcile change in net assets to net cash provided by operations:	
Depreciation	325,980
Changes in operating assets and liabilities:	
Grants and contributions receivable	(952,535)
Prepaid expenses and other assets	31,344
Accounts payable	(242,665)
Accrued expenses	71,281
Client deposits	(2,171)
Deferred revenue	1,943,965
Net cash provided by operating activities	2,074,156
Cash flows used in investing activities:	
Purchases of property and equipment	(21,514)
Cash flows used in financing activities:	
Principal payments on note payable	(63,952)
Net increase in cash and cash equivalents	1,988,690
Cash and cash equivalents, beginning of year	378,607
Cash and cash equivalents, end of year	$ 2,367,297

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Harbor Interfaith Services, Inc. (the "Organization") was the result of a 1987 merger between two organizations: FISH, The Emergency Food Pantry and Advocacy Center (1975); and Harbor Interfaith Shelter (1983) (the "Shelter"). The unification integrated the delivery of the most fundamental human services–nutrition and shelter–and enabled clients to be treated holistically. FISH inspired various community-wide education/outreach initiatives, and the Shelter became the wellspring for residential services, particularly those designed for homeless women with children. Subsequent early childhood and after school education programs yielded a comprehensive and advanced menu of services. Each year, the Organization's 90-day family shelter and 18-month transitional housing program provides residence and support (including childcare) to approximately 450 people. The Family Resource Center extends aid in virtually all areas: free groceries, clothing and hygiene items; rental/utility assistance; case management and individualized referrals; access to medical and dental services. The Organization serves the South Bay of Los Angeles County, Service Planning Area SPA 8.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The Organization adopted ASU No. 2016-14 for the year ended December 31, 2018 for the purpose of preparing the accompanying financial statements.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization's general activities and operations at the discretion of the Board of Directors.

With donor restrictions - Net assets that are 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 such resources be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

At December 31, 2018, net assets with donor restrictions consisted of donations received for the purpose of the family resource center totaling $268,324 and an endowment fund totaling $1,000,000 for the Organization's Accelerated Learning and Living program (see Note 5).

Unconditional written promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Conditional written promises to give are recognized when the conditions on which they depend are substantially met. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Grants and contracts with governmental agencies are deemed to be exchange transactions and accordingly, revenue is recognized when earned or when funds are utilized by the Organization to carry out the activity stipulated in the grant or contract. Accordingly, amounts expended but not yet received are classified as grants receivable. Amounts received in excess of expenses incurred is recorded as deferred revenue until the amounts are expended for the purpose of grants and contracts, at which time they are recognized as revenue.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In-Kind Contributions

In-kind contributions are recognized in the financial statements if the services or goods received enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended December 31, 2018, the Organization received $31,330 of in-kind contributions.

The Organization also receives a significant amount of contributed time from volunteers that do not meet the recognition criteria, totaling approximately 8,100 hours in 2018. Accordingly, the value of such contributed time is not reflected in the accompanying financial statements.

Endowment

The Organization classifies as net assets with donor restrictions (to be held in perpetuity) the original value of any contributions to the donor-restricted endowment. Investment income from the donor-restricted endowment is classified as net assets without donor restrictions as it is not restricted by the donor.

Use of Estimates

The preparation of financial statements in conformity with 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, but are not limited to, the collectability of grants and contributions receivable, the recoverability of property and equipment through future operations, the determination of deferred revenue, the allocation of expenses between program services, fundraising and general and administrative and the valuation of in-kind contributions of goods and services. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include operating cash held in banks and highly liquid investments purchased with an original maturity of ninety days or less. The Organization maintains cash at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per commercial bank. As of December 31, 2018, the Organization's cash balances were approximately $1,388,000 in excess of the FDIC insurance limits. Management believes that it has invested in high credit quality institutions for which the Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these accounts.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Grants and Contributions Receivable

Grant receivables represent billed and unbilled amounts for services rendered prior to December 31, 2018, on contracts existing at year end. Contributions receivable represent contributions promised and pledged to the Organization, which contains at year end a $200,000 donor restricted contribution. It is the policy of management to review the outstanding receivables at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for uncollectible amounts. The Organization has determined that amounts outstanding at December 31, 2018 are collectible and an allowance for uncollectible receivables was not deemed necessary.

Property and Equipment

Property and equipment are recorded at cost except for donated equipment, which is stated at fair value at date of receipt. The Organization follows the practice of capitalizing expenditures for equipment in excess of $2,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 31 years. Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise retired, the asset accounts and related accumulated depreciation accounts are removed, and any gain or loss is included in the statement of activities.

Management assesses the recoverability of its property and equipment upon the occurrence of a triggering event by determining whether the depreciation of property and equipment over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of asset impairment, if any, is measured based on fair value and is charged to activities in the period in which impairment is determined by management. At December 31, 2018, management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Organization’s services will continue, which could result in impairment of property and equipment in the future.

Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market, or in the absence of a principal market, the most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs in priority that may be used to measure fair value:

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Level 1—Quoted prices in active markets for identical assets or liabilities;

Level 2—Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, credit risks, and default rates) or other inputs that are principally derived from or corroborated by observable market data by correlation or by other means; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At December 31, 2018, the Organization had no assets or liabilities that are required to be reflected at fair value on a recurring basis.

Income Taxes

The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended December 31, 2018, the Organization had no unrelated business income.

The Organization annually evaluates tax positions as part of the preparation of its exempt tax return. This process includes an analysis of whether tax positions the Organization takes with regard to a particular item of income or deduction would meet the definition of an uncertain tax position under current accounting guidance. The Organization believes its tax positions are appropriate based on current facts and circumstances. The Organization's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At December 31, 2018, the Organization did not have any unrecognized tax benefits. The Organization is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2015.

Allocated Expenses

The direct costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain indirect costs have been allocated among the programs and supporting services benefited based upon estimated benefit received.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Client Deposits

Patrons living at the family shelter are required to deposit a portion of their income with the Organization so that at a later date they will have resources to locate permanent housing. The deposits are refunded to the patrons when they exit the program.

Risks and Uncertainties

Certain of the Organization's services are governed by grant agreements with governmental agencies. All such grant agreements involving the Organization are for fixed terms and are renewed on an annual basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of activities. Management believes that they will be able to continue obtaining appropriate agreements to fund future operations based on their historical ability to obtain new grant agreements and based on their relationships with awarding agencies. The Organization's services are funded primarily by one government agency - Los Angeles Homeless Services Authority ("LAHSA"). LAHSA accounted for approximately 75% of government grant revenue for the year ended December 31, 2018 and for approximately 75% of receivables as of December 31, 2018.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 provides additional guidance to clarify the principles for recognizing revenue. The standard and subsequent amendments are intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. ASU No. 2014-09 is effective for the Organization for annual reporting periods beginning after December 15, 2018. It may be adopted either by restating all years presented in the financial statements or by recording the impact of adoption as an adjustment to retained earnings at the beginning of the year of adoption. The Organization has not yet selected a transition method nor determined the impact the adoption of ASU No. 2014-09 and its amendments will have on its financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02, as amended, is effective for the Organization for 2021. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and accounting guidance for contributions received and contributions made. ASU No. 2018-08 is effective for annual periods beginning after December 15, 2018 (2019 for the Organization). The Organization has not yet determined the method of adoption nor assessed the impact the adoption of this standard will have on its financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization’s working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for major events and a concentration of grant payments and individual contributions received near calendar year-end. As part of the Organization’s liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization maintains a $300,000 line of credit with American Business Bank that may be drawn upon as needed during the year to manage cash flow.

The Organization employs a risk-based operating reserve policy mandated by its Board and used to preserve a responsible and adequate cash reserve that ensures organizational stability while avoiding unnecessary stockpiling of cash simply to hit arbitrary goals based on a percentage of budget. The policy establishes and designates an amount sufficient to maintain ongoing operations at any point in time based on an established formula that assesses the most likely risks of interruption of major funding streams, the mitigating factors in place (such as insurance policies) in each case, the likely short- and long-term response the Organization would take, and the time needed to responsibly sunset activities that might end in the case of permanent funding loss. This dynamic system is reviewed and adjusted in response to internal and external changes. Performance against the policy is reviewed by the Board’s finance committee on a monthly basis.

NOTE 2 – LIQUIDITY AND AVAILABILITY, continued

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions. Amounts available as well as donor-restricted amounts that are available for general expenditures in the following year.

Cash and cash equivalents	$ 1,567,297
Grants and contributions receivable	1,701,139
Financial assets available to meet cash needs for general expenditures within one year	$ 3,268,436

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31, 2018:

Furniture and fixtures	$ 866,213
Automobiles	80,908
Buildings and improvements	9,147,590
Land	886,123
	10,980,834
Less accumulated depreciation	(3,821,437)
	$ 7,159,397

NOTE 4 – NOTE PAYABLE

The Organization has a note payable to American Business Bank, secured by a deed of trust and assignment of rents on real property, with an original face amount of $300,000. The note requires fixed monthly payments of $5,651, including interest at 4.85%. The note matures on May 1, 2021.

NOTE 4 – NOTE PAYABLE, continued

Minimum future principal payments on the note payable are as follows:

Years Ending December 31,		
2019	$	61,640
2020		64,700
2021		17,145
	$	143,485

NOTE 5 – ENDOWMENT

The Organization's endowment consists of donor-restricted funds. Donor-restricted endowment net assets of $800,000 are held in perpetuity at December 31, 2018 in a separate account included as part of cash and cash equivalents. The Organization received the final $200,000 contribution related to the endowment in 2019 and is recorded as a contribution receivable at December 31, 2018.

The Organization follows a board-approved endowment fund investment policy. Endowment funds shall be invested with the objective of preserving the long-term real purchasing power of the funds' assets while realizing appropriate investment income. Endowment funds assets will be maintained in a separate investment account with a full-service, low-cost financial services company and generally invested to maintain a ratio of two-thirds equities and one-third fixed income investments. The asset allocation of each of the endowment funds shall be determined from time to time by an Endowment Committee appointed by the Chairman of the Board of Directors, in consultation with any managers or advisors if desired, which allocation shall reflect a proper balance of the endowment fund's investment objective, any risk tolerance standard and the need for liquidity.

Investments of the endowment fund are to be diversified to limit the risk of loss resulting from the concentration of assets in a specific type of investment, specific maturity, specific issuer or sector unless the Endowment Committee prudently determines that, because of special circumstances, the purposes of the fund are better served without diversification.

It is understood that spending of the donor-restricted endowment is to be limited to 5% of any market appreciation on the previous year's total asset value as determined by the Board of Directors. In the event that the endowment account's year-end market value is less than 5% above the previous year's total asset value, no amounts will be transferred to the Organization's operations. At December 31, 2018, the endowment value is not below the value of the original amount contributed.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Line of Credit

The Organization has a line of credit agreement with American Business Bank with borrowing availability up to $300,000 and matured November 15, 2019. The Company had no borrowings outstanding at December 31, 2018. Borrowings under the line of credit are secured by a deed of trust and assignment of rents on real property, and bear interest at 1.00% plus the bank's prime rate (totaling 6.50% at December 31, 2018). The line of credit is in the process of being renewed under similar terms and conditions.

Leases

The Organization has a non-cancelable lease commitment for an office facility. The lease requires monthly payments of $3,858 and expires on October 31, 2020. Rent expense totaled approximately $46,000 for the year ended December 31, 2018.

Future annual minimum payments under the non-cancelable operating lease are as follows:

Years Ending December 31,	
2019	$ 47,926
2020	40,930
	$ 88,856

Indemnities and Guarantees

The Organization has made certain indemnities and guarantees, under which it may be required to make payments in relation to certain transactions. The Organization indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. The Organization has indemnified lenders for certain damages that may occur to the Organization's assets. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. Historically, the Organization has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

NOTE 7 – SPECIAL EVENTS

Income and expenses (included in auxiliary in fundraising expenses in the accompanying statement of functional expenses) from special events are as follows:

Revenue	$ 95,347
Expenses	26,320
Special events, net	$ 69,027

NOTE 8 – RELATED-PARTY TRANSACTIONS

Various board members make contributions to the Organization through donations, fundraising events, professional services and volunteer time. For the year ended December 31, 2018 the Organization received cash and non-cash contribution from board members and other related party totaling $20,000 and $53,000, respectively.

NOTE 9 – RETIREMENT PLAN

The Organization has a defined contribution benefit plan under Section 403(b) of the Internal Revenue Code. All employees are eligible to participate in the plan upon date of hire. Participating employees contribute to the plan in the form of semi-monthly contributions (subject to annual IRS limitations). The Organization does not contribute to the plan.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

During 2018, management discovered financial statement errors that reduced the previously reported December 31, 2017 unrestricted net assets by $368,154.

The errors primarily related to overstatement of revenue for cash receipts related to advances from customers and grants receivable, as well as an expense accrual for charges to the Organization's credit card.

The following summarizes the prior period adjustments referred to above:

Grants receivable	$ 134,523
Deferred revenue	219,441
Accrued expenses	14,190
	$ 368,154

NOTE 11 – SUBSEQUENT EVENTS

The Organization has evaluated and determined that no events, other than those disclosed herein, have occurred subsequent to the statement of financial position date of December 31, 2018 through December 20, 2019, the date the financial statements were issued, which would require adjustment to or disclosure in the financial statements.