

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

FINANCIAL STATEMENTS

For The Year Ended December 31, 2019
(With Summarized Comparative Financial Information for the
Year Ended December 31, 2018)

with

INDEPENDENT AUDITORS' REPORT THEREON

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

INDEX

Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7

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, 2019, and the related statements of activities, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2020, 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 the effectiveness of 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.

Irvine, California
December 30, 2020

KMJ Corbin & Company LLP

KMJ Corbin & Company LLP

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2019
(With Summarized Comparative Financial Information as of December 31, 2018)

	December 31, 2019	December 31, 2018 (Summarized)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 213,909	\$ 2,367,297
Investments – endowment fund	797,640	-
Investments – other	6,307	-
Grants and contributions receivable	3,640,748	1,901,139
Prepaid expenses and other assets	<u>9,811</u>	<u>117,182</u>
Total current assets	4,668,415	4,385,618
Property and equipment, net	6,959,514	7,159,397
Investments – endowment fund	<u>223,200</u>	<u>-</u>
Total assets	<u>\$ 11,851,129</u>	<u>\$ 11,545,015</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 769,366	\$ 246,285
Accrued expenses	162,583	155,704
Client deposits	32,509	21,693
Deferred revenue	2,194,094	2,465,066
Current portion of note payable	<u>64,698</u>	<u>60,360</u>
Total current liabilities	3,223,250	2,949,108
Note payable, net of current portion	<u>21,919</u>	<u>83,125</u>
Total liabilities	<u>3,245,169</u>	<u>3,032,233</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	7,381,659	7,244,458
With donor restrictions	<u>1,224,301</u>	<u>1,268,324</u>
Total net assets	<u>8,605,960</u>	<u>8,512,782</u>
Total liabilities and net assets	<u>\$ 11,851,129</u>	<u>\$ 11,545,015</u>

See independent auditors' report and accompanying notes to financial statements

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

STATEMENTS OF ACTIVITIES

For The Year Ended December 31, 2019

(With Summarized Comparative Financial Information For The Year Ended December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total (Summarized)
Support and revenue:				
Government grants	\$ 7,771,311	\$ -	\$ 7,771,311	\$ 5,760,937
Church and other organizations	45,797	-	45,797	980,468
Contributions	661,521	224,301	885,822	1,307,560
In-kind donations	52,386	-	52,386	31,330
Rental income	107,999	-	107,999	67,568
Dividend and other income, net	22,322	-	22,322	195
Special events	156,828	-	156,828	95,347
Net assets released from restrictions	<u>268,324</u>	<u>(268,324)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>9,086,488</u>	<u>(44,023)</u>	<u>9,042,465</u>	<u>8,243,405</u>
Expenses:				
Program services:				
CES Families	3,876,653	-	3,876,653	2,809,488
Family Shelter	419,039	-	419,039	481,136
Childcare Center	441,702	-	441,702	478,350
Accelerated Learning and Living	234,013	-	234,013	176,908
Coordinated Entry System	2,614,309	-	2,614,309	2,205,138
Family Resource Center	<u>850,372</u>	<u>-</u>	<u>850,372</u>	<u>812,885</u>
	8,436,088	-	8,436,088	6,963,905
General and administrative	246,034	-	246,034	112,557
Fundraising and development	<u>267,165</u>	<u>-</u>	<u>267,165</u>	<u>267,986</u>
Total expenses	<u>8,949,287</u>	<u>-</u>	<u>8,949,287</u>	<u>7,344,448</u>
Change in net assets	137,201	(44,023)	93,178	898,957
Net assets, beginning of the year	<u>7,244,458</u>	<u>1,268,324</u>	<u>8,512,782</u>	<u>7,613,825</u>
Net assets, end of the year	<u>7,381,659</u>	<u>1,224,301</u>	<u>8,605,960</u>	<u>8,512,782</u>

See independent auditors' report and accompanying notes to financial statements

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

STATEMENTS OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2019
(With Summarized Comparative Financial Information For The Year Ended December 31, 2018)

	CES Families	Family Shelter	Childcare Center	Accelerated Learning and Living	Coordinated Entry System	Family Resource Center	Total Program Services	General and Administrative	Fundraising and Development	Total	2018 Total (Summarized)
Salaries and payroll-related services	\$ 678,673	\$ 243,778	\$ 346,116	\$ 57,957	\$ 1,196,803	\$ 258,082	\$ 2,781,409	\$ 27,205	\$ 137,848	2,946,462	\$ 2,601,162
Auxiliary	-	-	-	-	-	-	-	-	34,477	34,477	26,320
Legal and accounting	12,651	5,419	5,742	633	14,369	4,923	43,737	14,922	1,641	60,300	25,303
Bank fees	-	-	-	88	-	-	88	14,644	74	14,806	18,594
Board expenses	-	-	-	-	-	-	-	2,026	-	2,026	577
Dues and subscriptions	760	101	709	71	1,195	608	3,444	304	1,443	5,191	4,300
Grant writing	-	-	-	-	-	-	-	-	50,500	50,500	45,000
Insurance	3,276	6,783	13,123	10,376	5,748	9,149	48,455	2,943	2,651	54,049	42,476
Maintenance	4,493	41,522	10,979	31,608	17,350	17,800	123,752	4,856	2,397	131,005	121,043
Postage	279	1	19	9	111	49	468	684	4,630	5,782	4,465
Printing	476	121	43	43	512	34	1,229	115	11,269	12,613	5,991
Promotion and fundraising	1,857	1,629	48	389	1,639	1,855	7,417	3,622	14,720	25,759	28,715
Property management	-	-	-	9,600	-	-	9,600	-	-	9,600	8,800
Rent	25,976	1,987	-	-	23,963	-	51,926	-	-	51,926	44,483
Property taxes	-	294	568	902	-	222	1,986	201	10	2,197	5,099
Subcontractor	650,515	-	-	21,602	458,190	48,271	1,178,578	-	-	1,178,578	804,922
Technology	2,143	416	2,108	240	3,836	1,807	10,550	1,890	602	13,042	85,677
Telephone	3,664	1,356	3,233	377	9,774	2,922	21,326	1,536	924	23,786	47,490
Travel	10,422	786	-	-	19,313	2,299	32,820	605	873	34,298	29,515
Utilities	5,315	27,587	19,015	21,723	8,961	20,573	103,174	7,693	1,233	112,100	99,264
Aid to clients and supplies	2,476,153	54,691	22,181	44,837	847,077	450,292	3,895,231	2,415	(1,096)	3,896,550	2,937,942
In-kind donation	-	-	-	561	775	31,486	32,822	1,447	2,969	37,238	31,330
Depreciation	-	32,568	17,818	32,997	4,693	-	88,076	158,926	-	247,002	325,980
Total	\$ 3,876,653	\$ 419,039	\$ 441,702	\$ 234,013	\$ 2,614,309	\$ 850,372	\$ 8,436,088	\$ 246,034	\$ 267,165	\$ 8,949,287	\$ 7,344,448

See independent auditors' report and accompanying notes to financial statements

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

STATEMENTS OF CASH FLOWS

For The Year Ended December 31, 2019

(With Summarized Comparative Financial Information For The Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 93,178	\$ 898,957
Adjustments to reconcile change in net assets to net cash (used in) provided by operations:		
Depreciation	247,002	325,980
Unrealized gains on investments	(22,322)	-
Dividend income	(859)	-
Changes in operating assets and liabilities:		
Grants and contributions receivable	(1,739,609)	(952,535)
Prepaid expenses and other assets	107,371	31,344
Accounts payable	523,081	(242,665)
Accrued expenses	6,879	71,281
Client deposits	10,816	(2,171)
Deferred revenue	<u>(270,972)</u>	<u>1,943,965</u>
Net cash (used in) provided by operating activities	<u>(1,045,435)</u>	<u>2,074,156</u>
Cash flows from investing activities:		
Purchases of investments	(1,003,966)	-
Purchases of property and equipment	<u>(47,119)</u>	<u>(21,514)</u>
Net flows used in investing activities	<u>(1,051,085)</u>	<u>(21,514)</u>
Cash flows used in financing activities:		
Principal payments on note payable	<u>(56,868)</u>	<u>(63,952)</u>
Net (decrease) increase in cash and cash equivalents	(2,153,388)	1,988,690
Cash and cash equivalents, beginning of year	<u>2,367,297</u>	<u>378,607</u>
Cash and cash equivalents, end of year	\$ <u>213,909</u>	\$ <u>2,367,297</u>

See independent auditors' report and accompanying notes to financial statements

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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 homeless 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 8 (“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 June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange as well as provides additional guidance to assist in determining whether a contribution is conditional and to better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization adopted this standard during the year ended December 31, 2019 with no material impact on the Organization’s financial statements.

At December 31, 2019, the Organization had remaining available award balances on federal and non-federal grants and contracts of approximately \$8,521,000. These award balances are not recognized as assets and will be recognized as revenue as the projects progress and conditions are met, generally as expenses are incurred. These awards have certain renewal and cancellation provisions, which are not reflected in the available award balance above. Certain awards do not contain a fixed award amount; as a result, these contracts are also not reflected in the available award balance above.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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

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:

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, 2019, net assets with donor restrictions consisted of donations received for the Family Resource Center and Accelerated Learning and Living programs totaling \$224,301 and an endowment fund totaling \$1,000,000 for the Organization’s Accelerated Learning and Living program (see Note 6).

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.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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

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

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 years ended December 31, 2019 and 2018, the Organization received \$52,386 and \$31,330 of in-kind contributions, respectively.

The Organization also receives a significant amount of contributed time from volunteers that do not meet the recognition criteria, totaling approximately 10,300 hours in 2019 and 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 development and general and administrative and the valuation of in-kind contributions of goods and services. Actual results could materially differ from those estimates.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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

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, 2019, the Organization did not have cash and cash equivalents balances 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.

Investments

Investments consist of exchange-traded investments which are carried at fair value (see Note 5).

Net appreciation (depreciation) in the fair value of the investments, which consists of the realized and unrealized gains or losses on the investments, is shown in the statement of activities.

Grants and Contributions Receivable

Grant receivables represent billed and unbilled amounts for services rendered prior to year end on contracts existing at year end. Contributions receivable represent contributions promised and pledged to the Organization. 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, 2019 and 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 statements of activities.

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

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, 2019 and 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:

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.

See Note 5 for fair value disclosures.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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

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 years ended December 31, 2019 and 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, 2019 and 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 2016.

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.

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.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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

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 72% and 75% of government grant revenue for the years ended December 31, 2019 and 2018, respectively, and for approximately 81% and 75% of receivables as of December 31, 2019 and 2018, respectively.

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, as amended, is effective for annual reporting periods beginning after December 15, 2019. ASU No. 2014-09 may be adopted either by restating all years presented in the financial statements or by recording the impact of adoption as an adjustment to net assets 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, as amended, will have on its financial statements.

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 fiscal year 2022. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU No. 2016-02, as amended, will have on its financial statements.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

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.

The following reflects the Organization’s financial assets as of December 31, 2019, 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:

Cash and cash equivalents	\$ 213,909
Investment - endowment fund	20,840
Investments - other	6,307
Grants and contributions receivable	<u>3,640,748</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,881,804</u>

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 901,638	\$ 866,213
Automobiles	92,602	80,908
Buildings and improvements	9,147,590	9,147,590
Land	<u>886,123</u>	<u>886,123</u>
	11,027,953	10,980,834
Less accumulated depreciation	<u>(4,068,439)</u>	<u>(3,821,437)</u>
	<u>\$ 6,959,514</u>	<u>\$ 7,159,397</u>

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.

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

<u>Years Ending December 31,</u>	
2020	\$ 64,698
2021	<u>21,919</u>
	<u>\$ 86,617</u>

NOTE 5 – FAIR VALUE MEASUREMENTS

The Organization holds its other investments in exchange-traded instruments and its endowment-related investments in various equity and fixed income investment pools (see Note 6).

The fair value of the Organization's investments in exchange-traded investments is based upon observable inputs and have been classified within Level 1 of the valuation hierarchy.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

NOTE 5 – FAIR VALUE MEASUREMENTS, continued

In the equity and fixed-income investment pools, funds are invested to provide safety through diversification in a portfolio of common stocks, bonds, mutual funds, alternative investments and cash equivalents. The fair value of the Organization’s endowment-related investments is based partially upon unobservable inputs that are significant to the fair value of the investments, as estimated by the investment manager using generally accepted valuation methodologies. As a result, these investments have been classified within Level 3 of the valuation hierarchy.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, January 1, 2019	\$	-
Deposits		1,000,000
Payments/expenses		(4,347)
Change in fair value of investments		<u>25,187</u>
Balance, December 31, 2019	\$	<u>1,020,840</u>

NOTE 6 – ENDOWMENT

The Organization’s endowment consists of donor-restricted funds totaling \$1,000,000 that are held in perpetuity at December 31, 2019.

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.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

NOTE 6 – ENDOWMENT, continued

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, 2019 and 2018, the endowment value was not below the value of the original amount contributed.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Line of Credit

The Organization had a line of credit agreement with American Business Bank with borrowing availability up to \$300,000. The Company had no borrowings outstanding at December 31, 2019 and 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, 2019). The line of credit was amended in 2019 and again in 2020 to extend the maturity date to February 15, 2021 and to amend the rate floor to 4.25%.

Leases

The Organization has a non-cancelable operating lease commitment for an office facility. The lease requires monthly payments ranging from \$3,858 to \$4,093 and expires on October 31, 2023. Rent expense totaled \$51,926 and \$44,483 for the years ended December 31, 2019 and 2018, respectively.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

NOTE 7 – COMMITMENTS AND CONTINGENCIES, continued

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

<u>Years Ending December 31,</u>	
2020	\$ 47,707
2021	40,868
2022	42,094
2023	<u>35,951</u>
	<u>\$ 166,620</u>

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 its lender for certain damages that may occur to the Organization's assets. In connection with its office lease, the Organization has indemnified its lessor for certain claims arising from the use of the office space. 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 statements of financial position.

NOTE 8 – 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	\$ 156,828
Expenses	<u>(41,015)</u>
Special events, net	<u>\$ 115,813</u>

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2019 and 2018

NOTE 9 – 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, 2019 the Organization received cash contributions from board members totaling \$64,903. For the year ended December 31, 2018 the Organization received cash and non-cash contributions from board members and other related party totaling \$20,000 and \$53,000, respectively.

NOTE 10 – 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 11 – SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The extent of COVID-19’s effect on the Organization’s operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considered the rapidly evolving landscape. The Organization is currently analyzing the potential impacts to its operations. At this time, it is not possible to determine the magnitude of the overall impact of COVID-19 on the Organization. However, it could have a material adverse effect on the Organization’s financial condition, liquidity, results of operations, and cash flows.

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, 2019 through December 30, 2020, the date the financial statements were issued, which would require adjustment to or disclosure in the financial statements.