

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

FINANCIAL STATEMENTS

For The Year Ended December 31, 2022
(With Summarized Comparative Financial Information for the
Year Ended December 31, 2021)

with

INDEPENDENT AUDITORS' REPORT THEREON

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harbor Interfaith Services, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Harbor Interfaith Services, Inc. (a non-profit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, as of January 1, 2022, the Company adopted new accounting guidance related to leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 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 January 23, 2024 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.

KMJ Corbin & Company LLP

KMJ Corbin & Company LLP

Irvine,
California
January 23, 2024

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2022

(With Summarized Comparative Financial Information as of December 31, 2021)

	December 31, 2022	December 31, 2021 (Summarized)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 862,702	\$ 1,103,068
Cash equivalents – endowment fund	18,403	20,978
Investments – endowment fund	762,102	889,492
Investments – other	13,292	17,345
Grants and contributions receivable	4,462,490	3,627,989
Prepaid expenses and other current assets	35,870	14,308
Total current assets	6,154,859	5,673,180
Property and equipment, net	6,659,970	6,940,708
Operating lease right-of-use assets, net	35,370	-
Investments – endowment fund	172,384	198,214
Other assets	7,716	7,716
Total assets	\$ 13,030,299	\$ 12,819,818
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 847,350	\$ 624,210
Accrued expenses	227,633	231,905
Client deposits	16,980	17,510
Grantor payable	2,237,002	2,608,375
Operating lease liabilities	35,846	-
Total liabilities	3,364,811	3,482,000
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Unrestricted	8,665,488	8,229,134
Board designated	-	108,684
	8,665,488	8,337,818
With donor restrictions	1,000,000	1,000,000
Total net assets	9,665,488	9,337,818
Total liabilities and net assets	\$ 13,030,299	\$ 12,819,818

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, 2022

(With Summarized Comparative Financial Information For The Year Ended December 31, 2021)

	2022			2021 Total (Summarized)
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Government grants	\$ 11,389,893	\$ -	\$ 11,389,893	\$ 10,447,162
Church and other organizations	31,580	-	31,580	39,269
Contributions	2,046,520	50,622	2,097,142	1,234,824
In-kind donations	40,364	-	40,364	16,427
Rental income	107,503	-	107,503	94,278
Dividend and other income (loss), net	(107,607)	-	(107,607)	27,323
Special events	130,350	-	130,350	200,418
Net assets released from restrictions	50,622	(50,622)	-	-
Total support and revenue	<u>13,689,225</u>	<u>-</u>	<u>13,689,225</u>	<u>12,059,701</u>
Expenses:				
Program services:				
CES Families	3,537,599	-	3,537,599	3,247,012
Family Shelter	317,831	-	317,831	463,510
Childcare Center	505,487	-	505,487	477,437
Accelerated Learning and Living	304,899	-	304,899	231,779
CES Individuals and Youth	4,928,282	-	4,928,282	3,952,384
Family Resource Center	557,728	-	557,728	891,052
Interim Housing	1,083,175	-	1,083,175	1,013,157
A Bridge Home	1,701,824	-	1,701,824	1,314,327
	<u>12,936,825</u>	<u>-</u>	<u>12,936,825</u>	<u>11,590,658</u>
General and administrative	352,096	-	352,096	372,442
Fundraising and development	72,634	-	72,634	87,937
Total expenses	<u>13,361,555</u>	<u>-</u>	<u>13,361,555</u>	<u>12,051,037</u>
Change in net assets	327,670	-	327,670	8,664
Net assets, beginning of the year	<u>8,337,818</u>	<u>1,000,000</u>	<u>9,337,818</u>	<u>9,329,154</u>
Net assets, end of the year	<u>\$ 8,665,488</u>	<u>\$ 1,000,000</u>	<u>\$ 9,665,488</u>	<u>\$ 9,337,818</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, 2022
(With Summarized Comparative Financial Information For The Year Ended December 31, 2021)

	CES Families	Family Shelter	Childcare Center	Accelerated Learning and Living	CES Individuals and Youth	Family Resource Center	Interim Housing	A Bridge Home	Total Program Services	General and Administrative	Fundraising and Development	Total	2021 Total (Summarized)
Salaries and payroll-related services	\$ 766,137	\$ 153,116	\$ 400,155	\$ 105,480	\$ 2,110,994	\$ 227,505	\$ 484,733	\$ 928,793	\$ 5,176,913	\$ 35,037	\$ 32,082	\$ 5,244,032	\$ 4,736,471
Auxiliary	-	-	-	-	-	-	-	-	-	103	27,013	27,116	23,275
Legal and accounting	6,567	1,793	5,320	1,520	20,535	3,230	9,880	12,160	61,005	37,549	760	99,314	65,879
Bank fees	-	-	-	-	-	-	-	-	-	3,801	179	3,980	23,294
Board expenses	-	-	-	-	-	-	-	-	-	1,797	1,761	3,558	500
Dues and subscriptions	923	159	1,525	275	1,625	679	361	541	6,088	2,291	1,963	10,342	8,706
Grant writing services	-	-	-	-	-	-	-	-	-	-	-	-	42,500
Insurance	9,580	3,507	8,199	2,338	32,410	3,905	15,199	18,707	93,845	23,330	1,169	118,344	97,101
Maintenance	7,529	22,525	14,642	75,563	16,439	14,297	22,705	23,171	196,871	10,842	168	207,881	152,351
Postage	203	5	10	-	221	33	39	1	512	798	1,954	3,264	3,322
Printing	288	61	-	(49)	158	208	132	(27)	771	1,073	1,784	3,628	3,244
Promotion and fundraising	5	-	-	-	84	1,404	285	1,020	2,798	375	1,017	4,190	3,666
Property management	-	-	-	9,600	-	-	-	-	9,600	-	-	9,600	10,400
Property taxes	-	367	383	1,091	38	190	-	70	2,139	312	39	2,490	2,043
Rent	27,679	23	73	6,947	28,558	15	48	80	63,423	495	3	63,921	63,805
Subcontractor	501,862	-	-	-	450,979	-	76,380	-	1,029,221	3,000	-	1,032,221	1,293,025
Technology	1,025	1,765	419	120	7,304	209	778	958	12,578	824	60	13,462	9,955
Telephone	9,304	6,549	4,253	1,441	27,884	3,284	9,102	14,606	76,423	7,607	137	84,167	58,599
Travel	2,284	295	-	170	20,141	69	1,003	1,709	25,671	1,779	-	27,450	17,395
Utilities	4,463	25,791	19,890	30,822	15,570	9,247	-	50,185	155,968	16,778	322	173,068	155,017
Aid to clients and supplies	2,199,750	68,983	47,070	22,230	2,188,125	251,205	436,921	631,659	5,845,943	39,749	2,223	5,887,915	4,966,703
In-kind donation	-	-	-	-	-	40,364	-	-	40,364	-	-	40,364	16,427
Depreciation	-	32,892	3,548	47,351	7,217	1,884	25,609	18,191	136,692	164,556	-	301,248	297,359
Total	\$ 3,537,599	\$ 317,831	\$ 505,487	\$ 304,899	\$ 4,928,282	\$ 557,728	\$ 1,083,175	\$ 1,701,824	\$ 12,936,825	\$ 352,096	\$ 72,634	\$ 13,361,555	\$ 12,051,037

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, 2022

(With Summarized Comparative Financial Information For The Year Ended December 31, 2021)

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 327,670	\$ 8,664
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	301,248	297,359
Amortization of right-of-use operating lease assets	42,141	-
Unrealized and realized losses (gains) on investments	106,417	(27,323)
Changes in operating assets and liabilities:		
Grants and contributions receivable	(834,501)	(968,034)
Prepaid expenses and other current assets	(21,562)	(3,786)
Accounts payable	223,140	326,764
Accrued expenses	(4,272)	5,223
Client deposits	(530)	(11,822)
Grantor payable	(371,373)	66,840
Operating lease liabilities	<u>(41,665)</u>	<u>-</u>
Net cash used in operating activities	<u>(273,287)</u>	<u>(306,115)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(20,510)	(32,402)
Proceeds from the sale of investments	<u>53,431</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>32,921</u>	<u>(32,402)</u>
Net decrease in cash and cash equivalents	(240,366)	(338,517)
Cash and cash equivalents, beginning of year	<u>1,103,068</u>	<u>1,441,585</u>
Cash and cash equivalents, end of year	<u>\$ 862,702</u>	<u>\$ 1,103,068</u>
Supplemental disclosure of non-cash transactions:		
Right-of-use assets and lease liabilities recorded upon adoption of ASC 842	<u>\$ 77,511</u>	<u>\$ -</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, 2022 and 2021

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 to homeless families. The Family Resource Center (“FRC”) extends aid in virtually all areas: free groceries, clothing, and hygiene items; rental/utility assistance; case management and individualized referrals; and access to medical and dental services. The Coordinated Entry System (“CES”) for Families, Individuals and Youth is a network designed to provide prevention, retention, permanent housing, and support services. The Interim Housing, A Bridge Home (“ABH”) San Pedro, Redondo Beach Pallet Shelter, and Torrance Pallet Shelter provides chronically homeless individuals with temporary housing leading to permanent housing solutions. Harbor Permanent Support Housing (“PSH”) offers chronically homeless individuals permanent housing shared housing. 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”).

Support and Revenue

The Organization’s revenue-producing arrangements under government and foundation grants and other contributions do not meet the definition of contracts under Accounting Standards Codification (“ASC”) 606, as the arrangements do not have commercial substance and do not meet the definition of an exchange transaction under the clarified guidance in Accounting Standards Update (“ASU”) 2018-08. As such, under the clarified guidance, these transactions constitute contributions per ASU 2018-08.

At December 31, 2022, the Organization had remaining available award balances on federal and non-federal grants and contracts of approximately \$15,900,000. 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, 2022 and 2021

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

The Organization's rental income and portions of its special events income are considered revenue under ASC 606. The Organization applies the following steps to recognize revenue related to ASC 606:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Determine the satisfaction of performance obligations

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. This balance includes board-designated endowment fund balances in excess of the original donor-restricted amount of \$1,000,000 that the Board of Directors has elected to not transfer out of the endowment fund account and into the Organization's operations (see Note 5).

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, 2022, net assets with donor restrictions consisted of 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.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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

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 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 grantor payable until the amounts are expended for the purpose of grants and contracts, at which time they are recognized as revenue, or are repaid to the grantor.

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, 2022 and 2021, the Organization received \$40,364 and \$16,427 of in-kind contributions, respectively. The fiscal 2022 contributed items consist primarily of clothing, which were valued using estimated US wholesale prices of similar products. No in-kind contributions are restricted. The Organization does not sell donated items and only distributes them for program use.

The Organization also receives a significant amount of contributed time from volunteers that do not meet the recognition criteria, totaling approximately 201 hours in 2022 and no hours in 2021. No hours during 2021 was due to the ongoing COVID-19 pandemic and impact on volunteer events. 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.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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

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 grantor payable, lease assumptions, including discount rates and lease terms, 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.

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, 2022, the Organization had cash and cash equivalents balances of approximately \$480,000 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.

Investments

Investments consist of exchange-traded investments which are carried at fair value (see Note 4).

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 statements of activities.

Grants and Contributions Receivable

Grants receivable 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, 2022 and 2021 are collectible and an allowance for uncollectible receivables was not deemed necessary.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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

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. Property and equipment acquired by the Organization with the use of unrestricted funds is owned by the Organization. Property and equipment acquired by the Organization from grant funds is considered to be owned by the Organization while used in the program for which it was purchased. However, the funding source has a reversionary interest in the equipment and its disposition. 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.

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, 2022 and 2021, 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:

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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.

See Note 4 for fair value disclosures.

Leases

At the inception of a contract, the Organization determines if the arrangement is, or contains, a lease. Operating lease right-of-use (“ROU”) assets represent the Organization’s right to use an underlying asset for the lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of the future minimum lease payments over the lease term calculated using the risk-free rate commensurate with the term of the ROU asset.

ROU assets also include any lease payments made at or before lease commencement and exclude any lease incentives received. The lease terms may include options to extend the lease when it is reasonably certain that the Organization will exercise that option. Leases with a term of 12 months or less are not recognized in the balance sheet. Rent expense is recognized on a straight-line basis over the lease term.

The Organization accounts for lease and non-lease components as separate lease components for all its leases.

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, 2022 and 2021, the Organization had no unrelated business income.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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

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, 2022 and 2021, 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 2019.

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.

For the year ended December 31, 2022, expenses consisted of program services, general and administrative, and fundraising and development expenses which represented 97%, 2%, and 1%, respectively, of total expenses. Program services expenses for the year ended December 31, 2022 were broken out among programs as follows:

<u>Program</u>	<u>Total Program Services Expenses</u>	<u>Percentage of Total Program Services Expenses</u>
CES Families	\$ 3,537,599	27%
Family Shelter	317,831	3%
Childcare Center	505,487	4%
Accelerated Learning and Living	304,899	2%
CES Individuals and Youth	4,928,282	38%
Family Resource Center	557,728	4%
Interim Housing	1,083,175	9%
A Bridge Home	1,701,824	13%
	<u>\$ 12,936,825</u>	<u>100%</u>

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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 two government agencies – Los Angeles Homeless Services Authority ("LAHSA") and County of Los Angeles, Department of Homeland Security ("DHS"). LAHSA accounted for approximately 62% and 70% of government grant revenue for the years ended December 31, 2022 and 2021, respectively, and for approximately 79% and 80% of grants and contributions receivable as of December 31, 2022 and 2021, respectively. DHS accounted for approximately 25% and 19% of government grant revenue for the years ended December 31, 2022 and 2021, respectively and for approximately 0% and 12% of grants and contributions receivable as of December 31, 2022 and 2021, respectively.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* ("ASC 842"), which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statement of financial position. ASU 2016-02, as amended, is effective for reporting periods beginning after December 15, 2021. Most prominent among the changes in the new standard is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Under the new standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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

The Organization adopted this standard effective January 1, 2022, using the modified retrospective approach, which allowed the Organization to make any necessary transition adjustments at January 1, 2022. The Organization elected the optional transition method, which allowed the Organization to continue to use disclosures required by the prior standard during 2022, the year of adoption.

The adoption of the new standard on January 1, 2022 did not have a material impact on the Organization’s statement of financial position, which resulted in the recognition of an operating lease right-of-use asset of \$77,511. In addition, the adoption of the new standard did not materially impact the Organization’s results of operations and cash flows nor did it have an impact on the Organization’s beginning net assets balance.

ASC 842 provides several optional practical expedients in transition to make the transition more efficient and cost-effective for companies. For leases that commenced prior to January 1, 2022, the Organization elected (i) the “package of practical expedients,” which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs, and (ii) the use-of-hindsight in determining the lease term and in assessing impairment of right-of-use assets.

In addition, ASC 842 provides practical expedients for an entity’s ongoing accounting that the Organization has elected short-term lease recognition exemption for all leases that qualify.

See Note 6 for additional information regarding the Organization’s leases.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, which requires the Organization to change its financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. ASU No. 2020-07 defines gifts-in-kind as contributed nonfinancial assets donations made for goods or services the Organization would purchase in the normal course of business. Gifts-in-kind of tangible property include items like operating facilities, utilities, office furniture, and supplies provided to the Organization; items donated to the Organization to be auctioned through charitable events; and items used in program activities, such as medical supplies, building supplies, appliances, and fixtures. Intangible gifts-in-kind include items like copyrights, patents, and royalties; specialized volunteer services, such as those from nurses for medical organizations or project managers and builders for construction projects; and expertise, such as accounting, legal, and consulting services. The Organization adopted ASU No. 2020-07 in fiscal year 2022 with no significant impact on its financial statements.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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.

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, 2022, 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	\$	862,702
Investments - other		13,292
Grants and contributions receivable		<u>4,462,490</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>5,338,484</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

	<u>2022</u>	<u>2021</u>
Furniture and fixtures	\$ 1,400,978	\$ 1,380,468
Automobiles	137,162	137,162
Buildings and improvements	9,167,316	9,167,316
Land	<u>886,123</u>	<u>886,123</u>
	11,591,577	11,571,069
Less accumulated depreciation	<u>(4,931,607)</u>	<u>(4,630,361)</u>
	<u>\$ 6,659,970</u>	<u>\$ 6,940,708</u>

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

NOTE 4 – 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 5).

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.

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, 2022	\$ 1,108,684
Deposits	2,385
Payments/expenses	(53,430)
Change in fair value of investments	<u>(104,750)</u>
Balance, December 31, 2022	<u>\$ 952,889</u>

NOTE 5 – ENDOWMENT

The Organization’s endowment consists of donor-restricted funds totaling \$1,000,000 that are held in perpetuity at December 31, 2022.

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 Chair 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, 2022 and 2021

NOTE 5 – 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.

The Board of Directors has adopted a policy that the 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. Amounts in excess of \$1,000,000 not transferred to the Organization's operations are considered board-designated funds and are classified as net assets without donor restrictions. Board-designated funds related to this endowment were \$0 and \$108,684 as of December 31, 2022 and 2021, respectively.

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. At December 31, 2022, deficiencies of this nature exist in the donor-restricted endowment fund, which has an original gift value of \$1,000,000, a current fair value of \$952,889, and a deficiency of \$47,111. These deficiencies resulted from unfavorable market fluctuations that occurred during 2022 after the appropriation of approximately \$53,000 for certain programs that was deemed prudent by the Board of Trustees. At December 31, 2021, the endowment value was 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. The Company had no borrowings outstanding at December 31, 2022 and 2021. 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 8.0% at December 31, 2022). The line of credit, as amended, matures in August 2027.

Leases

The Organization has an operating lease for office space. This lease has a remaining term of one year. The operating lease in place does not contain information to determine the rate implicit in the leases. As such, the Organization utilized the risk-free discount rate based on the assumed remaining lease term for the lease to calculate the present value of the remaining lease payments. At December 31, 2022, the weighted-average discount rate and the weighted average remaining lease term for the operating lease held by the Organization was 0.78% and 0.80 years, respectively.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

NOTE 6 – COMMITMENTS AND CONTINGENCIES, continued

Upon adoption of ASC 842, the Organization recorded an operating lease right-of-use asset and liability of \$77,511. As of December 31, 2022, right-of-use assets and liabilities arising from the operating leases was \$35,370 and \$35,846, respectively. During the year ended December 31, 2022, cash paid for amounts included for the operating lease liability totaled \$42,094 and the Organization recorded operating lease expense of \$42,570 included in program, general and administrative and fundraising and development in the accompanying statement of activities. The Organization recorded \$20,875 of expense related to short-term leases and variable lease costs, including property taxes, insurance and maintenance.

Future minimum lease payments under non-cancelable operating leases at December 31, 2022 are as follows:

<u>Years Ending December 31,</u>	
2023	\$ <u>35,951</u>
Total future minimum lease payments	35,951
Less: imputed interest payments	<u>(105)</u>
Total operating lease liabilities	35,846
Less: current portion	<u>(35,846)</u>
	\$ <u> -</u>

The future annual minimum rental commitments under non-cancelable leases as of December 31, 2021 were as follows:

<u>Years Ending December 31,</u>	
2022	\$ 42,094
2023	<u>35,951</u>
	\$ <u>78,045</u>

Rental expense for the offices during the year ended December 31, 2021 was \$63,805.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

NOTE 6 – COMMITMENTS AND CONTINGENCIES, continued

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.

Legal Matters

The Organization may be involved from time to time in claims, lawsuits, or disputes with third parties, or actions involving allegations or discrimination or breach of contract actions incidental in its normal operations. The Organization is currently not involved in any such litigation or disputes which management believes could have a material adverse effect on its financial position or results of operations, or it is too early in the process to determine a range of possible settlement amounts.

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 at December 31:

	<u>2022</u>	<u>2021</u>
Revenue	\$ 130,350	\$ 200,418
Expenses	<u>(27,116)</u>	<u>(23,275)</u>
Special events, net	<u>\$ 103,234</u>	<u>\$ 177,143</u>

NOTE 8 – RELATED-PARTY TRANSACTIONS

Various board members make contributions to the Organization through donations, fundraising events, professional services and volunteer time. For the years ended December 31, 2022 and 2021, the Organization received cash contributions from board members totaling \$23,000 and \$26,500, respectively.

HARBOR INTERFAITH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2022 and 2021

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 – 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, 2022 through January 23, 2024, the date the financial statements were issued, which would require adjustment to or disclosure in the financial statements.