



**DOMESTIC VIOLENCE SOLUTIONS
FOR SANTA BARBARA COUNTY**

FINANCIAL STATEMENTS

JUNE 30, 2019

**DOMESTIC VIOLENCE SOLUTIONS
FOR SANTA BARBARA COUNTY
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Domestic Violence Solutions for Santa Barbara County

We have audited the accompanying financial statements of Domestic Violence Solutions for Santa Barbara County (the "Organization") which comprise the statement of financial position as of June 30, 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.

Auditor's Responsibility

Our responsibility is to express an opinion to 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 auditor's 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable 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 June 30, 2019, and the changes in net assets and 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 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 September 19, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the Organization's 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.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
September 19, 2019



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Domestic Violence Solutions for Santa Barbara County

We have audited, in accordance with the 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, the financial statements of Domestic Violence Solutions for Santa Barbara County (the “Organization”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 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, and have issued our report thereon dated September 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,



or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
September 19, 2019

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Financial Position

June 30, 2019

(With Summarized Comparative Totals for the Year 2018)

<i>Assets</i>	Without donor restrictions	With donor restrictions	Total	
			2019	2018
Cash and cash equivalents	\$ 704,295	\$ -	\$ 704,295	\$ 985,956
Accounts receivable	177,101	-	177,101	203,881
Pledges receivable	-	33,096	33,096	-
Bequest receivable	-	100,000	100,000	-
Grants receivable	-	52,863	52,863	85,465
Deposits and prepaid expenses	27,522	-	27,522	18,323
Property and equipment, net	1,474,541	-	1,474,541	1,416,767
Construction in progress	-	-	-	54,986
Interest in charitable remainder trust	-	64,501	64,501	65,599
Beneficial interest in assets held by others	-	1,572,111	1,572,111	1,496,638
<i>Total assets</i>	<u>2,383,459</u>	<u>1,822,571</u>	<u>4,206,030</u>	<u>4,327,615</u>
 <i>Liabilities and Net Assets</i>				
 <i>Liabilities</i>				
Accounts payable	\$ 27,493	\$ -	\$ 27,493	\$ 44,371
Accrued payroll and related expenses	83,456	-	83,456	82,936
Security deposits	3,000	-	3,000	1,200
Notes payable	482,863	-	482,863	515,265
<i>Total liabilities</i>	<u>596,812</u>	<u>-</u>	<u>596,812</u>	<u>643,772</u>
 <i>Net Assets</i>				
Without donor restrictions	1,786,647	-	1,786,647	2,036,141
With donor restrictions	-	1,822,571	1,822,571	1,647,702
<i>Total net assets</i>	<u>1,786,647</u>	<u>1,822,571</u>	<u>3,609,218</u>	<u>3,683,843</u>
	<u>\$ 2,383,459</u>	<u>\$ 1,822,571</u>	<u>\$ 4,206,030</u>	<u>\$ 4,327,615</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Activities

Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year 2018)

	Without donor restrictions	With donor restrictions	Total	
			2019	2018
Public Support and Revenue				
Public Support				
Government grants	\$ 953,587	\$ -	\$ 953,587	\$ 905,608
Contributions and grants	197,850	274,519	472,369	483,570
In-kind donations	159,698	-	159,698	138,150
Bequests	213,851	100,000	313,851	450,000
Net assets released from restrictions	289,337	(289,337)	-	-
Special events:				
Special events - gross	120,450	-	120,450	115,816
Direct special event costs	(40,811)	-	(40,811)	(34,861)
Net special event proceeds	79,639	-	79,639	80,955
Total public support	1,893,962	85,182	1,979,144	2,058,283
Revenue				
Thrift shop royalties	40,208	-	40,208	35,233
Rental income	33,565	-	33,565	23,181
Court ordered fees	40,045	-	40,045	35,014
Trainings	2,445	-	2,445	16,912
Change in value of beneficial interest in assets held by others	-	90,785	90,785	69,766
Change in value of interest in charitable remainder trust	-	(1,098)	(1,098)	(15,160)
Interest income	1,095	-	1,095	466
Gain on sale of land and improvements	-	-	-	342,766
Miscellaneous income	10,114	-	10,114	2,869
Total revenue	127,472	89,687	217,159	511,047
Total Public Support and Revenue	2,021,434	174,869	2,196,303	2,569,330
Expenses				
Program services	1,475,419	-	1,475,419	1,500,324
Management and general	624,912	-	624,912	261,736
Fundraising	170,597	-	170,597	203,536
Total expenses	2,270,928	-	2,270,928	1,965,596
Increase (decrease) in net assets	(249,494)	174,869	(74,625)	603,734
Net assets, beginning of year	2,036,141	1,647,702	3,683,843	3,080,109
Net assets, end of year	\$ 1,786,647	\$ 1,822,571	\$ 3,609,218	\$ 3,683,843

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Functional Expenses

Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year 2018)

	Program Services	Management and General	Fundraising	Total	
				2019	2018
Salaries and wages	\$ 762,315	\$ 389,010	\$ 81,698	\$ 1,233,023	\$ 1,116,739
Payroll taxes	57,033	28,219	6,103	91,355	83,892
Employee benefits	111,970	24,439	9,216	145,625	153,638
Total salaries and benefits	<u>931,318</u>	<u>441,668</u>	<u>97,017</u>	<u>1,470,003</u>	<u>1,354,269</u>
Office expenses	84,794	40,501	5,260	130,555	104,147
Occupancy	102,234	45,353	200	147,787	64,313
Occupancy (in-kind)	85,048	-	-	85,048	85,048
Program supplies (in-kind)	-	-	50,664	50,664	26,840
Insurance	22,000	8,701	2,334	33,035	33,464
Imputed interest (in-kind)	23,985	-	-	23,985	26,262
Professional services	3,387	45,688	208	49,283	55,376
Transportation	21,980	8,179	1,733	31,892	36,317
Direct mailings	-	-	5,123	5,123	4,221
Advertising	890	305	3,532	4,727	11,668
Direct assistance	82,977	-	-	82,977	6,194
Miscellaneous	-	1,663	2,075	3,738	2,535
Conferences and training	10,107	1,779	540	12,426	9,890
Donor development	-	-	1,911	1,911	619
Program supplies	8,308	-	-	8,308	6,865
Outreach and education	8,970	15,075	-	24,045	5,194
Total expenses before depreciation	<u>1,385,998</u>	<u>608,912</u>	<u>170,597</u>	<u>2,165,507</u>	<u>1,833,222</u>
Depreciation	<u>89,421</u>	<u>16,000</u>	<u>-</u>	<u>105,421</u>	<u>132,374</u>
	<u>\$ 1,475,419</u>	<u>\$ 624,912</u>	<u>\$ 170,597</u>	<u>\$ 2,270,928</u>	<u>\$ 1,965,596</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Cash Flows

Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year 2018)

	<u>2019</u>	<u>2018</u>
<i>Cash flows from operating activities</i>		
Cash received from unrestricted revenues and support, net	1,672,892	1,621,275
Cash received from temporarily restricted contributors	172,927	407,392
Interest income	1,095	466
Cash paid for salaries and related expenses, net	(1,469,483)	(1,327,641)
Cash paid for other operating costs, net	<u>(550,883)</u>	<u>(335,819)</u>
<i>Net cash provided (used) by operating activities</i>	<u>(173,452)</u>	<u>365,673</u>
<i>Cash flows from investing activities</i>		
Proceeds from sale of land and improvements	-	440,829
Purchase of equipment and leasehold improvements	<u>(108,209)</u>	<u>(98,931)</u>
<i>Net cash provided (used) by investing activities</i>	<u>(108,209)</u>	<u>341,898</u>
Net increase (decrease) in cash and cash equivalents	(281,661)	707,571
<i>Cash and cash equivalents, beginning of year</i>	<u>985,956</u>	<u>278,385</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 704,295</u>	<u>\$ 985,956</u>
Reconciliation of net assets to		
net cash provided (used) by operating activities		
Increase (decrease) in net assets	\$ (74,625)	\$ 603,734
Adjustments to reconcile increase (decrease) in net		
assets to net cash provided by operating activities:		
Depreciation	105,421	132,374
Gain on sale of land and improvement	-	(342,766)
In-kind loan forgiveness	(32,402)	(92,512)
Change in value of charitable remainder trusts	1,098	15,160
Unrealized gain on beneficial interest		
in assets held by others	(90,785)	(69,766)
(Increase) decrease in:		
Accounts receivable	26,780	2,584
Pledges receivable	(33,096)	-
Bequest receivable	(100,000)	-
Grants receivable	32,602	92,512
Deposits and prepaid expenses	(9,199)	(7,259)
Increase (decrease) in:		
Accounts payable	(1,566)	5,584
Accrued liabilities and related expenses	520	26,628
Security deposits	<u>1,800</u>	<u>(600)</u>
<i>Net cash provided (used) by operating activities</i>	<u>(173,452)</u>	<u>365,673</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2019
(With Summarized Comparative Totals for 2018)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Domestic Violence Solutions for Santa Barbara County (the “Organization”) is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Domestic Violence Solutions for Santa Barbara County, Inc., is a California nonprofit corporation dedicated to ending the intergenerational cycle of domestic violence by providing prevention and intervention services and by challenging society’s attitudes, beliefs and behaviors to effect social change. Incorporated March 30, 1980, the Organization operates three emergency shelters, a transitional housing site, county-wide teen services, and a full range of counseling and support services for men, women, and children. Services include a 24-hour crisis support line, a Domestic Violence Emergency Response Team (DVRT), which works alongside law enforcement at the scene of a domestic violence crisis, and a 40-hour domestic violence education training program.

Financial Statement Presentation

Information regarding the Organization’s financial position and activities are based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are permanent in nature, where by the donor has stipulated the funds be maintained in perpetuity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand and cash in banks.

Revenue Recognition

Generally accepted accounting principles require the Organization to differentiate between exchange transactions and contributions. Due to the nature of the governmental grants, the Organization has determined funds received under governmental grants to be exchange transactions. Accordingly, the Organization recognizes these governmental grants as earned revenue as those costs are incurred and subsequently invoiced to the appropriate government agency. Amounts due at year end are recorded in accounts receivable.

Contributions and Grants

Contributions are recorded at their fair value on the date of donation. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported support with donor restrictions that increases that net asset class.

In-kind Contributions

Numerous volunteers give their time and expertise to the Organization in a wide variety of areas to further its program and objectives. This contribution, despite its considerable value to the mission of the Organization, is not reflected in the financial statements. Donated rents and program related materials are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. In-kind interest is calculated using an imputed interest rates ranging from 4.5% to 6.0%

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by square footage utilized by the respective function.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accounts and Bequest Receivable

The Organization has made no provision for an allowance for doubtful accounts as of June 30, 2019 and 2018 based on management's analysis of the potential credit risk of funding agencies, historical trends, and other information. The Organization does not require collateral from its funding agencies.

Uncertain Tax Positions

Financial Accounting Standards Board's ASC 740-10, *Accounting for Uncertainty in Income Taxes*, prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization files tax returns in the U.S. federal jurisdiction and in the state of California. The Organization's tax returns from the year 2016 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2015 to the present remain subject to examination by the state of California. Management has evaluated its tax positions for all jurisdictions in which the statute of limitations remains open and has determined that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. The Organization had no unrecognized tax benefits related to tax positions taken during the year ended June 30, 2019 or for prior periods.

Tax Exempt Status

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Fair Value Measurements

The Organization follows Accounting Standard Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, issued by the Financial Accounting Standards Board (FASB). This standard defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. Pursuant to ASC No. 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC No. 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment, estimation, or other unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

Cash: Valued at face value. (Level 1)

Interest in charitable remainder trust: Valued using life expectancy and discount factors obtained from external sources. (Level 2)

Interest in assets held by others: Value is based on Net Asset Value (NAV) per the most recent audited financial statements and interim information provided by the fund manager. The Organization does not have the ability to control or direct the assets held by others and the income and principal is subject to certain restrictions on redemption. (Level 2)

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at the fair market value at the date of donation. Expenditures for building improvements and major renewals in excess of \$5,000 that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	15-20
Furniture and equipment	5-7
Vehicles	3-5

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization implemented ASU 2016-14 and adjusted the presentation of the financial statements accordingly.

Subsequent Events

Management has evaluated subsequent events through September 19, 2019, the date that the financial statements were available to be issued.

2. AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of June 30, 2019:

Cash and cash equivalents	\$ 704,295
Accounts receivable	177,101
Pledge receivable	3,096
Bequest receivable	<u>100,000</u>
	<u>\$ 984,492</u>

Additional funds are expected to be received from governmental grants, contributions, investment income, rental income, and royalties. These funds combined with the available funds are expected to exceed the amounts needed to fund the operations of the Organization for the June 30, 2020 fiscal year.

3. ACCOUNTS, BEQUEST, AND GRANTS RECEIVABLE

Accounts receivable consist primarily of amounts due from government agencies related to governmental grants. The amounts considered fully collectible within one year and therefore no present value discounts or allowances for uncollectible receivables have been recorded.

Bequest receivable consists of a single bequest due from a donor. This amount is considered to be fully collectible within one year and therefore no present value discounts or allowances for uncollectible receivables have been recorded.

Grants receivable consist of promises to forgive debt by local municipalities. Management anticipates full receipt of grants receivables; therefore, no allowance for uncollectible grants receivable has been recorded.

As of June 30, 2019, grants are expected to be received as follows:

2020	\$ 32,249
2021	14,929
2022	<u>5,685</u>
	<u>\$ 52,863</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 436,907	\$ 436,907
Buildings and improvements	3,506,086	3,444,784
Furniture and equipment	281,257	211,607
Vehicles	<u>78,114</u>	<u>65,870</u>
	4,302,364	4,159,168
	<u>(2,827,823)</u>	<u>(2,742,401)</u>
	<u>\$ 1,474,541</u>	<u>\$ 1,416,767</u>

5. INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has been named as a residual beneficiary in a charitable remainder trust (CRT) restricted for the endowment. The CRT was initially recorded as a permanently restricted contribution and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries. The assets are recorded at approximate fair market value based upon the most recent information filed by the trust which is available to the Organization. The present value of the estimated future value of assets to be received by the Organization is calculated using the government annuity tables and a discount rate based on the Organization's historic risk-free rate of return currently estimated at 6%. The changes in value of the CRT were (\$1,098) and (\$15,160) for the years ended June 30, 2019 and 2018, respectively.

6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization has a beneficiary interest in the Santa Barbara Foundation Endowment Fund (Fund) under an Agency Fund Agreement (Fund Agreement). The Fund attempts to provide stable capital appreciation on a total return basis. Assets of the Fund are fully exposed to market risks and may experience market volatility and principal loss. The beneficial interest in the Fund is reported by the Organization at the estimated fair market value which is based on the reported net asset value of the Fund as reported by the Santa Barbara Foundation. At June 30, 2019 and 2018, the estimated fair market value of the Organization's interest in the Fund was \$1,572,111 and \$1,496,638, respectively.

The Fund Agreement provides for the distribution of funds to be in accordance with the Santa Barbara Foundation's (SBF) spending policy for its endowed funds and consistent with the applicable provisions of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Fund Agreement allows SBF to seek the Organization's advice concerning the timing and amounts of extraordinary distributions from the Fund to the Organization, however, the funding of any extraordinary distribution is at the SBF's sole discretion. Annually SBF makes distributions from the Fund based on its spending policy available to the Organization. The Organization has the option to request a lesser distribution amount. For the years ended June 30, 2019 and 2018, the distributions were \$15,379 and \$0, respectively.

7. NOTES PAYABLE

Notes payable consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Mortgage secured by a second trust deed on the Santa Maria Shelter, which has converted from transitional housing to an emergency shelter, payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note will be forgiven over a period of ten years by September 17, 2022.	15,685	20,740
Mortgage secured by a third trust deed on the Santa Maria Shelter, which has converted from transitional housing to an emergency shelter, payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note will be forgiven over a period of ten years by December 17, 2020.	37,178	64,525
Mortgage secured by a first trust deed on second stage transitional housing building and rent income from the building, payable to the Successor Redevelopment Agency, City of Santa Barbara. The note is non-interest-bearing, with unpaid principal due October 2023.	<u>430,000</u>	<u>430,000</u>
Total Notes Payable	<u>\$ 482,863</u>	<u>\$ 515,265</u>

Aggregate principal maturities of the mortgages for the next five years and thereafter are as follows as of June 30:

2020	\$ 32,249
2021	14,929
2022	5,685
2023	<u>430,000</u>
Total	<u>\$ 482,863</u>

Total imputed interest for the non-interest-bearing notes payable for the years ended June 30, 2019 and 2018, was \$23,985 and \$26,262, respectively. Imputed interest rates on these notes range from 4.5% to 6.0%.

8. LINE OF CREDIT

The Organization maintained a line of credit for \$100,000 secured by all equipment, expiring March 1, 2019. The interest rate is the prime rate plus 1%, with a minimum of 6.0%. A new line of credit was opened on May 2, 2019 for one year period. The initial interest rate is 8.5%. As of June 30, 2019 and 2018 there were no outstanding balances.

9. CONCENTRATIONS AND RISKS

Concentrations

A significant portion of the Organization's revenues come from governmental grants. Approximately 50% of the governmental grant revenue is derived from two governmental grants with The California Governor's Office of Emergency Services ("Cal OES"). Individual donors come primarily from Santa Barbara County, as do the clients of the Organization.

Credit Risk

The Organization maintains bank accounts at four financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's uninsured cash balances totaled approximately \$97,000 at June 30, 2019.

Market Risk

The Organization holds its endowment in a diversified fund managed by the Santa Barbara Foundation. These investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

10. LEASES

The Organization leases facilities in an unincorporated area within Santa Barbara County, California under a conditional lease agreement restricted by purpose and use through March 2020, requiring monthly installments for utilities and maintenance of \$300. The facility is used as an emergency shelter. The estimated fair value of the in-kind rent is reflected as in-kind donation revenue and associated occupancy expense. The estimated value, totaling \$85,048, is based upon prevailing rates per square foot for similar facilities.

11. TRANSITIONAL HOUSING

In September 1993, the Organization purchased an apartment building in Santa Barbara County to be used for transitional housing. \$430,000 of the purchase price was provided by a grant from the U.S. Department of Housing and Urban Development (HUD) in the form of a loan at 4.5% per annum with no maturity date where payments were due only to the extent there was sufficient positive cash flow. In October 2007, the grant was amended to forgive all of the accrued interest, the interest rate was reduced to 0% per annum, and maturity date of October 1, 2023 where all principal and interest will be due.

11. TRANSITIONAL HOUSING (Cont.)

HUD grant terms require that the facility be used as transitional housing for 10 years from the date of purchase. Additionally, if the facility is sold within 20 years of initial occupancy, proceeds from that sale should be used to provide supportive housing or for the benefit of low-income persons or for another use approved by HUD.

12. ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors have interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date. As a result of this interpretation, the Organization has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the organization considers the following factors in making a determination to appropriate or invest donor-restricted endowment funds:

- (1) The duration and preservation of the funds
- (2) The purposes of the Organization and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Investment Return Objectives, Risk Parameters, and Strategies

The Board approved and adopted investment and spending policies for the endowment assets. The objective of the investment policy is to provide adequate returns to meet the spending needs of the Organization while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return which exceeds the annual distribution with acceptable levels of risk. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to avoid exposing the Organization to unacceptable levels of risk. Endowment assets are invested with the Santa Barbara Foundation which has a well-diversified asset mix, which includes a variety of equity and debt securities.

12. ENDOWMENT FUNDS (Cont.)

Spending Policy

The Organization's endowment has been established for general operating purposes. The Organization's spending policy allows annual net income distributions from the beneficiary interest in assets held by others at its discretion.

In establishing this policy, the Organization considered the funding needs of the Organization as well as the goal of protecting the purchasing power of endowment assets over the long-term. Distributions are minimalized to in order to allow funds to grow at a rate that will be commensurate with inflation while maintaining the corpus of the original and new gifts that are received.

As of June 30, 2019 and 2018, changes in endowment net assets consist of the following:

<u>June 30, 2019</u>	<u>With Donor Restrictions</u>
Beginning endowment net assets	\$ 1,288,700
Net investment return	90,852
Appropriation of endowment assets for expenditure	(15,379)
Unappropriated investment earnings	<u>(75,473)</u>
Ending endowment net assets	<u>\$ 1,288,700</u>
<u>June 30, 2018</u>	<u>With Donor Restrictions</u>
Beginning endowment net assets	\$ 1,288,700
Net investment return	69,766
Unappropriated investment earnings	<u>(69,766)</u>
Ending endowment net assets	<u>\$ 1,288,700</u>

13. FAIR VALUE MEASUREMENTS

The following sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2019 and 2018:

<u>June 30, 2019</u>	<u>Fair Value (Level 1)</u>	<u>Fair Value (Level 2)</u>	<u>Fair Value (Level 3)</u>
Santa Barbara Foundation			
Endowment Fund	\$ -	\$ 1,572,111	\$ -
Interest in charitable remainder trust	<u>-</u>	<u>64,501</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 1,636,612</u>	<u>\$ -</u>
<u>June 30, 2018</u>	<u>Fair Value (Level 1)</u>	<u>Fair Value (Level 2)</u>	<u>Fair Value (Level 3)</u>
Santa Barbara Foundation			
Endowment Fund	\$ -	\$ 1,496,638	\$ -
Interest in charitable remainder trust	<u>-</u>	<u>65,599</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 1,562,237</u>	<u>\$ -</u>

14. RETIREMENT PLAN

The Organization has adopted a 401(k) retirement plan and allows all employees the option to participate in a matching program for retirement benefits. The Organization matches 50% on up to 5% of elective deferrals for all employees who choose to participate. For the years ended June 30, 2019 and 2018, employer contributions to the plan totaled \$7,120 and \$6,802, respectively.

15. NET ASSETS

Net assets with donor restrictions are temporarily restricted for the following amounts at June 30:

	<u>2019</u>	<u>2018</u>
Unspent endowment earnings	\$ 283,411	\$ 207,938
Time restricted receivables	<u>185,959</u>	<u>85,465</u>
	<u>\$ 469,370</u>	<u>\$ 293,403</u>

15. NET ASSETS (Cont.)

Net assets with donor restrictions are permanently restricted for the following amounts at June 30:

	<u>2019</u>	<u>2018</u>
Charitable remainder trust interest	\$ 64,501	\$ 65,599
Beneficial interest in assets held by others	<u>1,288,700</u>	<u>1,288,700</u>
	<u>\$ 1,353,201</u>	<u>\$ 1,354,299</u>

16. CASH FLOW INFORMATION

The Organization had noncash transactions consisting of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
In-kind donation of goods	\$ 50,664	\$ 26,840
In-kind donation of rent	85,048	85,048
In-kind donation of interest	23,985	26,262