

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

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

WITH INDEPENDENT AUDITORS' REPORT

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
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SEPTEMBER 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Rescue Mission, Inc. and Subsidiaries
Tustin, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Orange County Rescue Mission, Inc. and subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orange County Rescue Mission, Inc. and subsidiaries as of September 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Period Financial Statements

The consolidated financial statements of Orange County Rescue Mission, Inc. and subsidiaries as of and for the year ended September 30, 2017, were audited by other auditors whose report dated February 15, 2018, expressed an unmodified opinion on those statements.

White Nelson Dick Evans LLP

Irvine, California
December 13, 2018

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS

	2018	2017
Assets:		
Cash and cash equivalents	\$ 8,299,908	\$ 5,801,794
Investments	284,555	1,307,455
Gift-in-kind inventory	199,140	235,537
Accounts receivable	474	6,301
Prepaid expenses	352,765	237,334
Deposits	-	500
Property held for sale	-	1,835,433
Land, buildings, and equipment, at net book value	43,540,767	42,581,157
Total Assets	\$ 52,677,609	\$ 52,005,511

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 366,526	\$ 134,179
Accrued expenses	565,340	299,322
Security deposits held	21,750	20,250
Total Liabilities	953,616	453,751
Net Assets:		
Unrestricted	51,576,812	51,406,824
Temporarily restricted	147,181	144,936
Total Net Assets	51,723,993	51,551,760
Total Liabilities and Net Assets	\$ 52,677,609	\$ 52,005,511

The accompanying notes are an integral part of these consolidated financial statements.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Year Ended September 30, 2018			Year Ended September 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support, Revenues, and Gains:						
Contributions	\$ 11,344,149	\$ 2,245	\$ 11,346,394	\$ 9,705,571	\$ 144,936	\$ 9,850,507
Gift-in-kind activity	10,987,776	-	10,987,776	10,199,467	-	10,199,467
Rental income/program fees	654,049	-	654,049	643,575	-	643,575
Other	626,065	-	626,065	589,968	-	589,968
Total Support, Revenue, and Gains	<u>23,612,039</u>	<u>2,245</u>	<u>23,614,284</u>	<u>21,138,581</u>	<u>144,936</u>	<u>21,283,517</u>
Expenses:						
Program services	<u>19,225,212</u>	<u>-</u>	<u>19,225,212</u>	<u>16,856,266</u>	<u>-</u>	<u>16,856,266</u>
Supporting Services:						
Administration	1,523,038	-	1,523,038	1,358,769	-	1,358,769
Fund development	<u>2,693,801</u>	<u>-</u>	<u>2,693,801</u>	<u>2,196,976</u>	<u>-</u>	<u>2,196,976</u>
Total Supporting Services	<u>4,216,839</u>	<u>-</u>	<u>4,216,839</u>	<u>3,555,745</u>	<u>-</u>	<u>3,555,745</u>
Total Expenses	<u>23,442,051</u>	<u>-</u>	<u>23,442,051</u>	<u>20,412,011</u>	<u>-</u>	<u>20,412,011</u>
Increase in Net Assets	169,988	2,245	172,233	726,570	144,936	871,506
Net Assets, Beginning of Year	<u>51,406,824</u>	<u>144,936</u>	<u>51,551,760</u>	<u>50,680,254</u>	<u>-</u>	<u>50,680,254</u>
Net Assets, End of Year	<u>\$ 51,576,812</u>	<u>\$ 147,181</u>	<u>\$ 51,723,993</u>	<u>\$ 51,406,824</u>	<u>\$ 144,936</u>	<u>\$ 51,551,760</u>

The accompanying notes are an integral part of these consolidated financial statements.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Year Ended September 30, 2018				Year Ended September 30, 2017			
	Program Ministries	Support Activities		Total	Program Ministries	Support Activities		Total
		General and Administrative	Fundraising			General and Administrative	Fundraising	
Direct assistance - food, clothing, health-care education, recreation, childcare	\$ 12,049,617	\$ -	\$ -	\$ 12,049,617	\$ 10,637,660	\$ -	\$ -	\$ 10,637,660
Compensation and related expenses	3,209,735	442,484	703,688	4,355,907	2,704,304	451,723	514,566	3,670,593
Depreciation	1,471,174	33,408	11,392	1,515,974	1,236,741	26,883	9,167	1,272,791
Public education	-	39,182	20,880	60,062	-	282,585	885,364	1,167,949
Occupancy, utilities, and maintenance	1,278,568	23,936	7,891	1,310,395	1,110,295	20,879	7,173	1,138,347
Direct marketing	-	197,414	1,829,421	2,026,835	-	74,670	672,031	746,701
Professional fees	129,284	666,472	16,830	812,586	119,597	379,491	47,391	546,479
Supplies	366,747	68,805	64,977	500,529	222,896	75,338	26,187	324,421
Information technologies	219,361	45,584	32,608	297,553	185,161	37,934	28,134	251,229
Insurance	169,130	4,574	1,560	175,264	189,046	5,113	1,744	195,903
Vehicles	140,059	47	3,943	144,049	156,863	-	2,339	159,202
Dues, subscriptions, and training	5,075	1,132	611	6,818	19,397	4,153	2,880	26,430
Other	186,462	-	-	186,462	274,306	-	-	274,306
Total Expenses	\$ 19,225,212	\$ 1,523,038	\$ 2,693,801	\$ 23,442,051	\$ 16,856,266	\$ 1,358,769	\$ 2,196,976	\$ 20,412,011

The accompanying notes are an integral part of these consolidated financial statements.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 172,233	\$ 871,506
Noncash Items Included in Increase in Net Assets:		
Donated inventory	(7,496,654)	(6,941,416)
Distributed inventory	7,533,051	6,864,679
Depreciation	1,515,974	1,272,791
Donated assets	(34,259)	(46,975)
(Gain) loss on investments	51,000	(4,303)
Changes in:		
Accounts receivable	5,827	690
Prepaid expenses and other assets	(115,431)	27,350
Deposits and security deposits	2,000	19,954
Accounts payable	232,347	(203,349)
Accrued expenses	266,018	36,180
Net Cash and Cash Equivalents Provided by Operating Activities	2,132,106	1,897,107
Cash Flows from Investing Activities:		
Proceeds from sale of investments	1,006,159	-
Purchase of property, plant, and equipment	(640,151)	(879,222)
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	366,008	(879,222)
Net Increase in Cash and Cash Equivalents	2,498,114	1,017,885
Cash and Cash Equivalents, Beginning of Year	5,801,794	4,783,909
Cash and Cash Equivalents, End of Year	\$ 8,299,908	\$ 5,801,794
Supplemental Disclosure:		
Interest paid	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 1: Nature of Business and Summary of Significant Accounting Policies

Nature of Organization

Orange County Rescue Mission, Inc. (“OCRM”) was formed to provide emergency and transitional care for homeless individuals and families. OCRM’s mission is to minister the love of Jesus Christ to the least, the last, and the lost of the community through the provision of assistance in the areas of guidance, counseling, education, job training, shelter, food, clothing, health care, and independent living.

OCRM’s philosophy of ministry is to operate in a dynamic, entrepreneurial manner, thereby expecting to grow and expand numerically, programmatically, and geographically. OCRM seeks to be constantly challenged with a fresh vision and well-prepared strategies, which originate with the president and senior professional staff, that are refined, confirmed, and approved by the board of directors.

OCRM’s values as an organization are to provide inspiration of hope in those it serves; excellence in everything it does; leadership centered on servanthood; respect for each person as an individual; and integrity and accountability, while moving students toward self-sufficiency with a commitment to spiritual, emotional, social, and vocational growth and maintaining an environment that fosters teamwork, success, and trust.

OCRM is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and comparable state laws. However, OCRM is subject to federal income tax on any unrelated business taxable income. In addition, OCRM is not classified as a private foundation within the meaning of Section 509(a) of the IRC. Contributions by the public are eligible to be deducted for income tax purposes.

Expenses related to providing this care have been recorded as program services in the accompanying consolidated financial statements. OCRM was incorporated as a nonprofit organization under the laws of the State of California on April 21, 1965.

Basis of Presentation

The consolidated financial statements of OCRM have been prepared on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when incurred. Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets - Unrestricted net assets are net assets that are not subject to donor-imposed restrictions. Unrestricted net assets generally result from unrestricted contributions and interest and dividends, less expenses incurred in providing services and fundraising and other administrative expenses.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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

Basis of Presentation (Continued)

Temporarily Restricted Net Assets - Temporarily restricted net assets are net assets that are subject to donor-imposed restrictions that require the passage of time or the occurrence of a specific event to become available for unrestricted use.

Permanently Restricted Net Assets - Permanently restricted net assets are net assets that are subject to donor-imposed restrictions that may be maintained permanently while permitting OCRM to use or expense part or all of the income derived from the donated assets. At September 30, 2018 and 2017, there were no permanently restricted net assets.

Principles of Consolidation

For the years ended September 30, 2018 and 2017, the consolidated financial statements include the accounts of OCRM, Inland Empire Rescue Mission (“IERM”), and Hope Family Housing (“HFH”) (collectively referred to as the “Organization”). IERM also does business as Corona Norco Rescue Mission and Temecula Murrieta Rescue Mission. HFH did not have any activity during the years ended September 30, 2018 and 2017. During the year ended September 30, 2015, the Organization was given control over another nonprofit organization known as Laurel House (“LH”), which is consolidated within these financial statements. LH is an organization dedicated to assisting troubled girls and fits within the mission of the Organization.

Accounting for Contributions

Contributions are recorded when cash or unconditional promises to give have been received or ownership of donated assets is transferred to the Organization.

Unrestricted contributions are recognized as an increase in unrestricted net assets when received. Contributions restricted by donors are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the donor-imposed restriction. When restrictions are satisfied, either by the passage of time or by accomplishing the purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Organization reports both the revenue and the related expense in the unrestricted net asset class.

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in other income in the accompanying consolidated statements of activities. As of September 30, 2018 and 2017, securities included in investments are considered Level 1 of the fair value hierarchy. Adjustments to the valuation of investments are included in other income in the consolidated statements of activities.

Donated Goods and Gift-in-Kind Inventory

Material gifts in kind are used in the Organization's programs. Donated goods are recorded at fair market value on the date of the donation as in-kind contributions and, when distributed, as program services in the consolidated statements of activities. Gift-in-kind inventory consists of donated goods used in the operation of the Organization's programs. A physical count of items on hand at the end of the year is performed to determine the inventory in the consolidated statements of financial position at September 30, 2018 and 2017.

Donated Services

Donated services are a significant part of the Organization's operations and are reported as contributions at their fair market value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills. Such items are charged to operations as appropriate. Management's estimated amount of the fair value of recognized services for the years ended September 30, 2018 and 2017, was \$3,526,491 and \$2,703,154, respectively, which is included in gift-in-kind activity in the consolidated statements of activities.

In addition to these specialized donated services, the Organization tracks the significant investment of time by the thousands of other volunteers and program participants. If not for these volunteer hours, the Organization would have been required to purchase equivalent services. Management has estimated the value of such services for the years ended September 30, 2018 and 2017, to be \$4,708,124 and \$3,979,950, respectively. These amounts have not been recorded in the consolidated statements of activities, as they do not meet the requirements described above. The value of these volunteer hours was established based upon the type of volunteer time given and the hourly value of such time as determined by the US Department of Labor.

Asset Held for Sale

During the year ended September 30, 2016, the Organization declared its intention to sell the Double R Ranch and actively sought a buyer for the property. The asset was reclassified to an asset held for sale. In the current year, the Organization decided not to sell the property and reclassified the property to fixed assets.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost when purchased. Donations of property and equipment are recorded at their estimated fair value on the date of the donation. Estimated useful lives used for depreciation are as follows:

<u>Asset Type</u>	<u>Useful Life</u>	<u>Depreciation Method</u>
Buildings	27-40 years	Straight line
Building improvements	7 years	Straight line
Equipment and furniture	5-10 years	Straight line
Vehicles	5 years	Straight line

Land and artwork have indefinite useful lives and are not depreciated.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising costs for the years ended September 30, 2018 and 2017, were \$757,898 and \$747,922, respectively.

Fair Value of Financial Instruments

Financial and nonfinancial assets and liabilities are recorded at their fair market value in accordance with FASB ASC 820, *Fair Value Measurements*. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized in the following levels:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Directly or indirectly observable inputs for quoted and other than quoted prices for identical or similar assets and liabilities in active or nonactive markets.
- Level 3: Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity's own data.

All assets held at fair value fall within the Level 1 category.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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

Cash and Cash Equivalents

For purposes of the consolidated statements of financial position and cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Deposits with various banks and broker dealers may, at times, exceed federally insured limits. The Organization has not experienced any losses on these accounts.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting activities based on knowledge and estimates made by management.

Allocation of Joint Costs

The Organization has adopted the FASB ASC joint cost topic. This statement requires that all costs that contain any fundraising appeal be allocated to fundraising unless all of the following conditions are met: purpose, audience, and content. For the years ended September 30, 2018 and 2017, the Organization incurred the following joint costs:

		September 30, 2018	
		Management and General	Fundraising
	Newsletters	\$ 149,246	\$ 11,523
		September 30, 2017	
		Management and General	Fundraising
	Newsletters	\$ 105,531	\$ 8,148

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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

New Accounting Pronouncements

In August 2016, FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is designed to improve the current reporting requirements of various not-for-profit entities by reducing the number of net asset classes for not-for-profit organizations from three to two, and improves the current reporting requirements surrounding liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Organization is currently evaluating the effect of ASU 2016-14 on the presentation of its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2018-08 clarifies and improves the scope and accounting guidance for contributions received and contributions made. This update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its consolidated financial statements.

Note 2: Investments

Investments consist of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investments held at fair value	\$ -	\$ 51,000
Investments held at other than fair value:		
Money market accounts	284,555	254,185
Certificate of deposit	<u>-</u>	<u>1,002,270</u>
Total Investments	<u>\$ 284,555</u>	<u>\$ 1,307,455</u>

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Notes 3: Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at September 30, 2018 and 2017:

	2018	2017
Land	\$ 18,026,296	\$ 16,656,296
Buildings and improvements	34,639,686	33,520,294
Furniture and equipment	3,357,414	3,173,630
Artwork	1,399,224	1,399,224
Vehicles	593,653	593,653
Subtotal	58,016,273	55,343,097
Less: Accumulated depreciation	(14,475,506)	(12,761,940)
Land, Buildings, and Equipment, at Net Book Value	\$ 43,540,767	\$ 42,581,157

Due to the reclassification of the Double R Ranch from property held for sale at September 30, 2017, land increased by \$663,025, buildings and improvements increased by \$1,370,000, and accumulated depreciation increased by \$197,592 at September 30, 2018.

Note 4: Contingent Liabilities

In an effort to provide longer term transitional housing, the Organization has acquired properties that are available for rent at affordable rates. Residents must fall within certain income or demographic guidelines, and rent is set based upon family size and income. As part of the acquisition of these properties, the Organization received grants from various entities. In order to ensure that the properties are used for the intended purpose of affordable housing, the respective granting agencies placed deed restrictions on the properties and recorded a promissory note. Over time, these promissory notes will be forgiven and the deed restrictions will be lifted. The Organization's purpose and mission is to provide this type of transitional housing to at risk families; therefore, the possibility of defaulting on these agreements and not providing transitional housing has been deemed remote. As a result, the funds received from the grants have been recognized as income and no debt obligation has been recorded on the books. Management is not aware of any violations of these agreements.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 4: Contingent Liabilities (Continued)

The contingent liability if the Organization were to default on these notes is disclosed below:

Hope Family Housing El Modena - County of Orange

The Organization has a 3 percent promissory note due in 2053 to the County of Orange, which is payable in annual installments of \$32,647. It is secured by a deed of trust on the property known as Hope Family Housing - El Modena. The Organization is not obliged to make payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing as defined in the loan agreement.

Hope Family Housing Buena Park - City of Buena Park

The Organization has a 3 percent promissory note due in 2062 to the Community Redevelopment Agency of the City of Buena Park and payable in annual interest-only installments of \$30,756. It is secured by a deed of trust on the property known as Hope Family Housing - Buena Park. The Organization is not obliged to make payments of principal or interest during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing as defined in the loan agreement. Interest will continue to accrue each year until the due date.

Hope Family Housing Buena Park - Prop 10 Commission

The Organization has an interest-free promissory note due in 2038 with the Children and Families Commission of Orange County (Prop 10). It is secured by a deed of trust on the property known as Hope Family Housing - Buena Park. The Organization is not obliged to make principal or interest payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for families with children ages 0-5 as defined in the loan agreement. On an annual basis, a credit is applied based on the number of units occupied by families with children ages 0-5 and this amount decreases the principal balance.

Hope Family Housing Murrieta - County of Riverside

The Organization has an interest-free promissory note due in 2067 with the Redevelopment Agency of the County of Riverside. It is secured by a deed of trust on four homes that are used as transitional housing. The Organization is not obliged to make principal or interest payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for families.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 4: Contingent Liabilities (Continued)

Hope Family Housing Corona - City of Corona

The Organization has an interest-free promissory note due in April 2069 with the City of Corona. It is secured by a deed of trust on two buildings located at 926 and 932 W 5th Street, Corona, California, that are composed of 12 apartments. The Organization is not obliged to make principal or interest payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for families. At the end of the 55-year term, the amount of the note is forgiven in full.

Hope Family Veterans Housing - City of Tustin

The Organization has a 3 percent promissory note due in 2045 to the City of Tustin, a California municipal corporation. Forgiven annually is 1/30th of the principal and interest balance. It is secured by a deed of trust on the property known as Hope Family Veteran Housing. The Organization is not obliged to make payments during the term of this note provided that the property is used exclusively for the purpose of the program, which is transitional housing for veterans as defined in the loan agreement.

At September 30, 2018 and 2017, the outstanding balances and accrued interest, if applicable, are as follows:

	<u>2018</u>	<u>2017</u>
Hope Family Housing El Modena - County of Orange	\$ 701,493	\$ 712,757
Hope Family Housing Buena Park - City of Buena Park	1,375,944	1,345,188
Hope Family Housing Buena Park - Prop 10 Commission	531,610	625,889
Hope Family Housing Murrieta - County of Riverside	996,000	996,000
Hope Family Housing Corona - City of Corona	459,961	459,961
Hope Family Veterans Housing - City of Tustin	<u>490,033</u>	<u>502,557</u>
Total	<u>\$ 4,555,041</u>	<u>\$ 4,642,352</u>

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 5: Net Assets

Net assets consist of the following at September 30, 2018 and 2017:

	2018	2017
Unrestricted net assets:		
Investment in land, buildings, and equipment	\$ 43,540,767	\$ 42,581,157
Board designated for expansion fund	1,500,000	1,500,000
Available for programs	6,536,045	7,325,667
 Total Unrestricted Net Assets	 \$ 51,576,812	 \$ 51,406,824
 Temporarily restricted net assets:		
Boys Home in progress	\$ 147,181	\$ 144,936

Note 6: Employee Benefit Plan

The Organization maintains a tax-deferred annuity plan qualified under Section 403(b) of the IRC. The plan covers all full-time employees of the Organization. Employees may make contributions to the plan immediately upon starting employment for up to the maximum amount allowed by the IRC. The Organization contributes 50 percent of the employee’s contribution for eligible employees. Employer contributions to this plan for the years ended September 30, 2018 and 2017, were \$64,386 and \$47,338, respectively.

The Organization also maintains a tax-deferred annuity plan qualified under Section 457 of the IRC. The plan covers certain full-time employee directors of the Organization. These employees may make contributions to the plan beginning in the calendar year following the employee’s first anniversary for up to the maximum amount allowed by the IRC. The Organization contributes 50 percent of the eligible employee’s contribution. Employer contributions to this plan for the years ended September 30, 2018 and 2017, were \$33,351 and \$32,250, respectively.

Note 7: Related-Party Transactions

A board member provided legal services in the amount of \$4,488 and \$4,912 for the years ended September 30, 2018 and 2017, respectively. Additionally, during the years ended September 30, 2018 and 2017, a company owned by a board member performed \$0 and \$233,693 in construction services, respectively.

OCRM maintains a close financial relationship with Hurtt Family Health Clinic (the “Clinic”) through a shared-services agreement and through a lease agreement for use of space at the Village of Hope, which is owned and operated by OCRM. Total amounts reimbursed for shared services were \$700,014 and \$521,196 for the years ended September 30, 2018 and 2017, respectively. Rental income received was \$157,944 and \$150,420 for the years ended September 30, 2018 and 2017, respectively.

ORANGE COUNTY RESCUE MISSION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8: Subsequent Events

Subsequent events were evaluated through December 13, 2018, which is the date the consolidated financial statements were available to be issued.