



BeaconHouse

ASSOCIATION OF SAN PEDRO

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)
with

INDEPENDENT AUDITORS' REPORT THEREON



CERTIFIED PUBLIC ACCOUNTANTS

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

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Independent Auditors' Report

To the Board of Directors
The Beacon House Association of San Pedro

Report on the Financial Statements

We have audited the accompanying financial statements of The Beacon House Association of San Pedro (the “Organization,” a non-profit corporation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’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 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 financial statements.



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 23, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "PDM, LLP". The letters are stylized and cursive.

Torrance, California
October 26, 2021

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 679,321	\$ 568,379
Funds held for residents	55,745	137,330
Accounts receivable, net	256,156	127,986
Investments	929,735	1,074,161
Bond funds held by trustee	233,548	233,257
Prepaid expenses	100,699	47,275
	2,255,204	2,188,388
LONG-TERM ASSETS		
Property and equipment, net	2,516,245	2,468,400
Right-of-use assets, net	1,543,240	488,204
Deposit	43,426	12,546
	4,102,911	2,969,150
	\$ 6,358,115	\$ 5,157,538
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 157,286	\$ 89,160
Accrued employee related expenses	67,904	48,300
Accrued bond interest payable	1,339	4,804
Refunding revenue bonds payable, current portion	140,000	135,000
Funds held for residents	55,745	118,331
Deferred revenue	-	4,561
Estimated third-party payor liabilities	-	37,534
	422,274	437,690
LONG-TERM LIABILITIES		
Refunding revenue bonds payable, net of current portion and bond issuance costs	293,141	427,345
CARES Act forgivable loan payable #1	-	117,645
CARES Act forgivable loan payable #2	133,984	-
Operating lease obligation	1,638,254	498,319
	2,487,653	1,480,999
NET ASSETS		
Without donor restrictions		
Board designated reserves	923,500	923,500
Undesignated net assets	2,896,521	2,703,039
	3,820,021	3,626,539
With donor restrictions	50,441	50,000
	3,870,462	3,676,539
	\$ 6,358,115	\$ 5,157,538

*The accompanying notes are an
integral part of these financial statements*

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	<u>2021</u>			<u>2020</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Summarized Total</u>
REVENUE AND SUPPORT				
Program income	\$ 1,531,982	\$ -	\$ 1,531,982	\$ 808,089
Government grants	1,165,785	-	1,165,785	737,551
Other grants and contributions	764,375	54,000	818,375	1,031,551
Forgiveness of CARES Act PPP Loan	117,645	-	117,645	-
Special events, net	194,353	-	194,353	191,457
Investment income, net	14,602	-	14,602	10,375
Contributed goods and services	88,617	-	88,617	12,085
Other income	-	-	-	251
Net assets released from restrictions	53,559	(53,559)	-	-
	<u>3,930,918</u>	<u>441</u>	<u>3,931,359</u>	<u>2,791,359</u>
EXPENSES				
Program services	3,093,067	-	3,093,067	2,094,618
Management and general	469,263	-	469,263	312,262
Fundraising	175,106	-	175,106	111,305
	<u>3,737,436</u>	<u>-</u>	<u>3,737,436</u>	<u>2,518,185</u>
CHANGE IN NET ASSETS	193,482	441	193,923	273,174
NET ASSETS, beginning of year	<u>3,626,539</u>	<u>50,000</u>	<u>3,676,539</u>	<u>3,403,365</u>
NET ASSETS, end of year	<u>\$ 3,820,021</u>	<u>\$ 50,441</u>	<u>\$ 3,870,462</u>	<u>\$ 3,676,539</u>

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integral part of these financial statements*

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	2021			2020	
	Program Services	Management and General	Fundraising	Total	Summarized Total
PERSONNEL EXPENSES					
Salaries and wages	\$ 879,463	\$ 234,522	\$ 58,632	\$ 1,172,617	\$ 590,510
Payroll taxes	67,057	17,881	4,471	89,409	41,970
Employee benefits	101,636	27,103	6,775	135,514	106,933
Total personnel expenses	1,048,156	279,506	69,878	1,397,540	739,413
OTHER EXPENSES					
Occupancy	360,883	45,110	45,111	451,104	285,683
Resident support and recreation	396,331	-	-	396,331	198,374
Professional fees	347,471	26,154	-	373,625	514,101
Office expenses	165,597	56,776	14,194	236,567	137,395
Food and beverages	181,399	-	-	181,399	154,224
Depreciation and amortization	128,408	15,590	11,905	155,903	140,552
Program supplies	99,325	-	-	99,325	25,151
In-kind services and goods	88,617	-	-	88,617	12,085
Resident enterprises	49,496	16,970	4,243	70,709	42,958
Repairs and maintenance	54,291	6,621	5,296	66,208	52,914
Property taxes (refunded)	31,924	3,991	3,990	39,905	(61,951)
Public relations	29,375	3,672	3,672	36,719	19,866
Insurance	28,212	3,441	2,752	34,405	73,234
Telephone and internet	27,062	3,300	2,640	33,002	24,858
Automobile	25,907	3,159	2,528	31,594	52,201
Bank and bond fees	13,679	1,668	1,335	16,682	3,119
Interest	11,321	1,381	1,104	13,806	9,653
Postage and printing	5,613	1,924	481	8,018	10,812
Travel	-	-	5,977	5,977	4,298
Bad debt	-	-	-	-	79,245
Total functional expenses	<u>\$ 3,093,067</u>	<u>\$ 469,263</u>	<u>\$ 175,106</u>	<u>\$ 3,737,436</u>	<u>\$ 2,518,185</u>

*The accompanying notes are an
integral part of these financial statements*

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 193,923	\$ 273,174
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	155,903	140,552
Bad debt expense	-	79,245
Realized gain on sales of investments	(7,335)	-
Unrealized gains on investments	(5,892)	(10,054)
Change in right-of-use asset and lease liability	84,899	5,517
CARES Act PPP note payable forgiveness	(117,645)	-
Changes in operating assets and liabilities:		
Funds held for residents, net	18,999	(18,999)
Accounts receivable	(128,170)	130,791
Prepaid expenses	(53,424)	9,495
Accounts payable and accrued expenses	68,126	(43,943)
Estimated third-party payor liabilities	(37,534)	(44,481)
Accrued employee related expenses	19,604	7,949
Accrued bond interest payable	(3,465)	(9,833)
Deferred revenue	(4,561)	(100,340)
Net cash flows from operating activities	183,428	419,073
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(197,952)	(90,183)
Deposits paid	(30,880)	(2,872)
Proceeds from sales of investments	210,000	-
Purchases of investments	(52,347)	(33,885)
Proceeds from sales of securities in bond funds held by trustee	135,000	130,000
Purchase of securities in bond funds held by trustee	(135,291)	(123,084)
Net cash flows from investing activities	(71,470)	(120,024)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from CARES Act forgivable loans	133,984	117,645
Payments on refunding revenue bonds	(135,000)	(130,000)
Net cash flows from financing activities	(1,016)	(12,355)
Net change in cash and cash equivalents	110,942	286,694
Cash and cash equivalents, beginning of year	568,379	281,685
Cash and cash equivalents, end of year	\$ 679,321	\$ 568,379
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 13,806	\$ 9,653

The accompanying notes are an integral part of these financial statements

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - ORGANIZATION

The Beacon House Association of San Pedro (the “Organization”) is a California public benefit corporation providing residential alcohol and drug community recovery programs and facilities to men. It is governed by an appointed board of directors and operated by an executive director, paid staff and volunteers. The Organization is supported primarily by contributions, grants and public support, including special events.

The Organization's population is comprised of males 18 years and older who have a high rate of homelessness, unemployment, criminal and institutional histories, Post Traumatic Stress Disorder from military combat and/or childhood abuse, untended health issues and alienation from family and society.

The Organization’s services and strategy involve continuous peer to peer support throughout a wide range of daily structured groups and classes, recreational activities and outings, community service and events. These are designed to teach adult responsibility, discipline, communication, teamwork, leadership, work ethics, honesty, humility, gratitude, character development, esteem building and social connectedness. A significant component of the program is the men’s involvement in entrepreneurial activities called Resident Enterprises, including landscaping and community beautification projects, managing a thrift shop, staffing community events, and catering breakfast and specialty-themed dinner events on-site at The Beacon House. These provide opportunities for the men to learn comprehensive job skills and to contribute to the financial health of the Association.

The Organization intervenes on dysfunctional and destructive attitudes and behaviors through individual and group counseling, peer-to-peer mentoring, accountability group, peer group, resident council meetings, 12-step recovery meetings, 12-step recovery literature group study, 12-step work and classes in relapse prevention, anger management, parenting and re-parenting techniques and leadership skills. The Organization’s goals are to prepare the men to establish and sustain sobriety, stable housing, employment, legal compliance, healthy family and social connectedness, thus enhancing their overall quality of life.

Funding - The Organization receives funding primarily from program income, government grants, grants from corporations and foundations, and contributions from individuals.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net assets with donor restrictions - Net assets with donor restrictions are assets subject to donor or grantor-imposed restrictions, some of which are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, while others are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of net assets with donor restrictions are reported as reclassifications between the applicable classes of net assets.

Recent Accounting Pronouncements - In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In June 2020, the FASB issued ASU 2020-05. “Revenue from Contracts with Customers: Topic 606: Deferral of Effective Date”. This standard delays the effective date for non-public entities to fiscal years beginning after December 15, 2019, with early adoption permitted.

The Organization adopted this new standard effective July 1, 2020. The adoption of this ASU 2014-09 did not have a significant impact on the Organization’s financial statements. The majority of the Organization’s revenue arrangements generally consists recognizing revenue to depict the transfer of goods and services to clients in an amount that reflects considerations to which the entity expects to be entitled in exchange for those goods or services. Based on the Organization’s evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue recognition - Contributions and pledges are recognized at fair value when the donor makes an unconditional promise to give to the Organization. Conditional promises to give (with a barrier and right of return) are not recognized until the conditions on which they depend have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Resident service revenue is reported in the period in which the services are provided and performance obligations are satisfied at the estimated net realizable amount, unless contractually required otherwise. Revenue under third party reimbursement agreements is included in government grants and is subject to future audit adjustments. The differences between service revenue and final settlements are recorded in the year of settlement.

Cash and cash equivalents - For the purpose of reporting cash flows, cash and cash equivalents include operating cash held in banks. The Organization considers money market funds in investment accounts as investments. The Organization maintains its cash balances in a financial institution, the balances of which may, at times, exceed federally insured limits. Management believes that the risk of loss is minimal.

Use of estimates - The preparation of financial statements in conformity 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable - Accounts receivable are amounts due from clients for services rendered and from grantors on cost reimbursement or performance grants. Receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides a reserve for probable uncollectible amounts through a charge to bad debt expenses and a credit to receivables allowance account based upon its assessment of the current status of accounts. As of June 30, 2021, management has recorded a reserve for potential bad debts of \$27,105.

Investments - The Organization's investments are carried at fair value. Realized gains and losses (computed by the specific identification method) and unrealized gains and losses are included in the statement of activities. Interest and dividend income are recorded on the accrual basis of accounting.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and equipment - Property and equipment are recorded at cost with the exception of donated equipment, which is recorded at fair market value at the date of receipt. The cost of purchased assets or fair market value of donated assets is depreciated on a straight-line basis over their estimated useful lives.

When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to operations. Normal repairs and maintenance are expensed as incurred. Expenditures that materially increase the value or extend the useful lives of the assets are capitalized.

Right-of-use assets and operating lease obligation - Effective July 1, 2018, the Organization elected early adoption of the new lease accounting standard which requires the lessee to recognize the assets and liabilities that arise from leases. Right-of-use assets include facilities occupied under long-term operating leases. The right-of-use assets and related lease obligation is amortized over the lease term on a straight-line basis. Amortization of the right-of-use assets is included in occupancy expenses.

Long-lived assets - The Organization assesses, using a qualitative then a quantitative approach, the recoverability of long lived assets, including property and equipment, whenever triggering events, or changes in circumstances, indicate that the historical-cost carrying value of an asset may no longer be appropriate. The evaluation is performed by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value and is charged to operations in the period in which such impairment is determined by management. To date, the Organization has not identified any impairment of long-lived assets. As of and for the year ended June 30, 2021, no triggering events were deemed present and therefore no impairment charges related to long lived assets were recognized. However, there can be no assurance that market conditions will not change, which could result in impairment of long-lived assets in the future.

Fair value of financial instruments - Financial instruments primarily consist of accounts receivable and investments. The Organization estimates that the fair value of its financial instruments at June 30, 2021, do not differ materially from its aggregate carrying value. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fair value measurements - The Organization defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization measures fair value under a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Deferred revenue - Income received for various projects is deferred and recognized as services are rendered to fulfill the terms outlined in the grant agreements which include conditions to be met.

Contributed goods and services - Contributed food and beverages received during the year ended June 30, 2021 totaled \$88,617. All contributed goods were utilized as part of resident support.

Contributions of services are recognized in the financial statements (as in-kind revenue and a corresponding in-kind expense) if the services enhance or create non-financial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization recognized no donated services during the year ended June 30, 2021.

Numerous unpaid volunteers have made significant contributions of their time to the different program services. The value of these contributions is not reflected in these statements since they do not meet the criteria for recognition as contributed services.

Expense allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. During the year, costs are categorized into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support activities by the method that best measures the relative degree of benefit.

Income taxes - The Organization is a qualified non-profit organization under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Non-profit organizations are not generally liable for taxes on income; therefore, no provision is made for such taxes for the Organization in the financial statements. During the year ended June 30, 2021, the Organization had no unrelated business income.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not of being sustained in an audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. During the year ended June 30, 2021, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions. As of June 30, 2021, all federal tax returns since the 2017 tax year and state tax returns since the 2016 tax year are still subject to adjustment upon audit. No tax returns are currently being examined by taxing authorities.

Risks and uncertainties - Certain of the Organization's services are governed by grant agreements with governmental agencies with fixed terms. There can be no assurance 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 operations. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties.

The Organization has contracts with the County of Los Angeles - Department of Health Services to provide services related to alcohol rehabilitation. The contracts require the Organization to disburse the funds received from the County for direct and indirect expenses of the program. The Organization does not get reimbursed for expenses of the program that exceed the program service revenues. Per the terms of the contracts, the County may terminate these agreements if federal and/or state funds are not available for agreed upon terms or services. Government contract revenue was approximately 30% of total revenue during the year ended June 30, 2021.

Reclassifications and comparative totals - Certain amounts presented in previous financial statements have been reclassified to conform to current presentation. The financial statements include certain prior year summarized comparative information in total, but not by net asset class. In addition, the notes to the financial statements do not contain the financial information on a comparative basis. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended, June 30, 2021, from which the summarized information was derived.

Subsequent events - Subsequent events have been evaluated by the Organization through October 26, 2021, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in these financial statements, that would require disclosure.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization’s financial assets as June 30, 2021, reduced by amounts not available for general use within one year of the balance sheet date because of donor restrictions and internal designations. Amounts not available include amounts set aside for board designated purposes that could be drawn upon if the governing board approves that action.

Cash and cash equivalents	\$ 679,321
Accounts receivable, net	256,156
Investments	929,735
Total financial assets	1,865,212
Board designated investments:	
Operating reserve	640,500
PPE reserve	(283,000)
Donor-restricted net assets	(50,441)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,172,271</u>

The Organization’s goal is to maintain financial assets on hand to meet at least three months of normal operating expenses which, on average, totals approximately \$291,000 per month given full programmatic expenditures. With the current cash expenditures of approximately \$3.5 million annually, the Organization possesses sufficient financial assets for approximately four months of expenditures to meet its philanthropic mission.

Board designated reserves - The board of directors had approved the establishment of two designated reserve funds. The purpose of the first Board Designated Reserve Fund (the “Operating Reserve”), is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The target minimum Operating Reserve amount is equal to three months of average operating cash expenditures and is currently \$640,500. The purpose of the second Board Designated Reserve Fund is for the timely and proper maintenance of the physical plant and equipment (“PPE Reserve”).

The PPE Reserve is intended to provide an internal source of funds for significant equipment purchases, building improvements and construction projects. The balance of the PPE Reserve is currently \$283,000.

COVID-19 impact - During March 2020, the World Health Organization declared the spread of Coronavirus disease, or COVID-19, a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. The pandemic slowed the Organization’s ability to serve patients. However, the Organization has adapted its channels to reach patients amidst the restrictions imposed by the federal and state governments.

THE BEACON HOUSE ASSOCIATION OF SAN PEDRO
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES, continued

It is expected COVID-19 could continue to negatively impact the Organization's 2021-2022's operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

CARES Act forgivable loan payable - Management believes the Organization is taking appropriate action to mitigate the potential negative financial impact of COVID-19, including participation in the Paycheck Protection Program (the "PPP Loan") funded by the U.S. Small Business Administration ("SBA"). Through the program, the Organization secured \$117,645 on April 2020, in a low-interest loan. On April 14, 2021, the Organization received a letter from the SBA granting full forgiveness of the PPP Loan. As a result, \$117,645 was recognized as Forgiveness of CARES Act PPP Loan support in the accompanying statement of activities for the year ended June 30, 2021.

Additionally, on January 31, 2021, the Organization secured a second PPP Loan of \$133,984, payable over up to five years. Under certain circumstances, the loan may be forgivable, although the amount of forgiveness is uncertain. A portion of the PPP Loan may be forgiven based on the Organization's use of the proceeds for its payroll costs and other expenses in accordance with the requirements of the CARES Act. It is uncertain what, if any, impact future legislation or regulatory definitions will have on the CARES Act.

If the second PPP Loan is not fully forgiven, the Organization will remain liable for the full and punctual payment of the outstanding principal balance plus accrued and unpaid interest. The second PPP Loan accrues interest at a rate of 1.0% per annum, and the outstanding principal balance would be due in monthly installments commencing the date that the SBA remits the Organization's loan forgiveness amount to the lender. The note must be repaid within five years of funding, which would be January 2026. The second PPP Loan is unsecured, and can be prepaid at any time prior to maturity with no prepayment penalties.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following is a description of the valuation methodologies used for the assets measured at fair value. All assets are measured at level 1 under the fair value hierarchy, and there have been no changes in the methodologies used during the year ended June 30, 2021.

Money market funds - Money market funds are open-ended mutual funds that invest in short-term debt securities such as U.S. Treasury bills and commercial paper. The fair values of the money market funds were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

Mutual funds - Mutual funds are valued at quoted market prices in an exchange and active market, which represent the net asset value of shares held by the Organization at year-end.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS, continued

Mutual funds held in trust - The trustee of the Organization's refunding revenue bonds (Note 7) manages and maintains the required reserve account, which is invested in mutual funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting deadline.

The following table summarizes the valuations of the Organization's investments as of June 30, 2021:

Money market funds	\$ 1,688
Mutual funds	794,695
Mutual funds held in trust	<u>133,352</u>
	<u>\$ 929,735</u>

Net investment income was comprised of the following during the year ended June 30, 2021:

Interest and dividend income	\$ 2,775
Realized gain (loss) on sale of investments	7,335
Unrealized gain on investments	5,892
Administrative fees	<u>(1,400)</u>
Investment income, net	<u>\$ 14,602</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2021:

Building and improvements	\$ 3,195,310
Furniture, fixtures, and equipment	263,989
Automobiles	<u>259,018</u>
	3,718,317
Less: accumulated depreciation and amortization	<u>(1,879,072)</u>
	1,839,245
Land	<u>677,000</u>
	<u>\$ 2,516,245</u>

Depreciation and amortization expense on property and equipment was \$155,903 during the year ended June 30, 2021.

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NOTE 6 - RIGHT-OF-USE ASSETS AND OPERATING LEASE OBLIGATIONS

Long-term operating leases - During September 2018, the Organization entered into an operating lease agreement for a San Pedro facility known as the “Thrift Shop.” The lease requires monthly payments of \$4,477 through September 2020, with incremental annual increases through August 2028. The Organization has the option to terminate the lease during the second and sixth year with 90-days written notice and an early termination fee. The Organization is also obligated to pay certain common area maintenance fees.

During November 2019, the Organization also entered into an operating lease agreement for a San Pedro facility known as the “Exchange Warehouse.” The lease requires monthly payments of \$3,590 through December 2022.

During January 2021, the Organization entered into an operating lease agreement for a Long Beach facility known as the “Long Beach Store”. The lease requires monthly payments of \$13,300 through May 2022, with incremental annual increases through May 2026. The lease includes a five-month abatement period during the first year. The Organization has the option to extend the lease term for one additional period of sixty months. The Organization is also obligated to pay certain common area maintenance fees.

Each operating lease obligation uses a discount rate ranging from 5.00% to 5.25%.

Future minimum payments on the long-term operating leases for the years ending June 30 are:

2022	\$	350,535
2023		343,021
2024		340,230
2025		355,586
2026		344,003
Thereafter		<u>140,880</u>
	\$	<u>1,874,255</u>

Short-term operating lease - During June 2021, the Organization extended an operating lease agreement for a San Pedro facility known as “Proper House.” The lease requires monthly payments of \$4,164 through May 2022.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - REFUNDING REVENUE BONDS PAYABLE

In October 2011, the Organization, through the California Health Facilities Financing Authority, issued \$1,505,000 of insured refunding revenue bonds, bearing interest rates ranging from 0.9% - 3.875% with the final installment payment due December 1, 2023. Principal is payable annually on December 1st of each year, and interest is payable semi-annually on June 1st and December 1st of each year.

The bonds are subject to mandatory sinking fund requirements starting December 1, 2020. The proceeds of the bonds, together with other funds, paid in full the Organization's 1993 Certificates of Participation, established a reserve account to service the new bonds, and paid the costs of issuance of the new bonds.

The Organization is required to transfer the interest and principal payments monthly to separate bank accounts managed by the bond trustee. These accounts are held in trust by U.S. Bank, along with the required bond reserve.

The regulatory agreement requires the Organization to satisfy certain covenants. The Organization was in compliance with the covenants as of June 30, 2021.

Future principal and interest payments due on the refunding revenue bonds are as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2022	\$ 13,133	\$ 140,000	\$ 153,133
2023	7,988	145,000	152,988
2024	2,422	150,000	152,422
	<u>23,543</u>	<u>435,000</u>	<u>458,543</u>
Bond issuance costs, net	-	(1,859)	(1,859)
	<u>\$ 23,543</u>	<u>\$ 433,141</u>	<u>\$ 456,684</u>

The Organization paid \$109,115 in costs of issuance, which are being amortized on a prorated basis over the life of the bonds based on the outstanding principal during the period. Amortization of issuance costs was \$5,796 for the year ended June 30, 2021.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 8 - SPECIAL EVENTS

The Organization conducts special events in order to assist in the program operations. All events are conducted in accordance with applicable federal, state, and local laws and ordinances. All revenues received from such events in excess of expenses are used for the program operations.

For the year ended June 30, 2021, special events revenue and expenses are as follows:

Revenue	\$ 254,106
Less: expenses	<u>(59,753)</u>
	<u>\$ 194,353</u>

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30, 2021:

<u>Purpose</u>	<u>Available</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Releases</u>	<u>Available</u> <u>June 30, 2021</u>
Building rehabilitation	\$ 50,000	\$ -	\$ (50,000)	\$ -
Shane Fleming Education	-	4,000	(1,796)	2,204
Beacon House Thrift Shop	-	50,000	(1,763)	48,237
	<u>\$ 50,000</u>	<u>\$ 54,000</u>	<u>\$ (53,559)</u>	<u>\$ 50,441</u>