UNITY SHOPPE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023

UNITY SHOPPE, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Unity Shoppe, Inc.
Santa Barbara, California

Opinion

We have audited the accompanying financial statements of Unity Shoppe, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unity Shoppe as of June 30, 2023 and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Unity Shoppe and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Unity Shoppe's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Unity Shoppe's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Unity Shoppe, Inc.'s June 30, 2022, financial statements, and we expressed an unmodified audit opinion on those statements in our report dated March 23, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

April 25, 2024

UNITY SHOPPE, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for June 30, 2022)

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total 2023	(Memo) Total 2022
Current Assets				
Cash and cash equivalents	$ 2,471,871	$ 98,811	$ 2,570,682	$ 2,724,872
Investments (Note 5)	316,555	-	316,555	253,654
Beneficial interest in assets held by others (Note 3)	149,587	-	149,587	146,633
Inventory	797,643	-	797,643	740,604
Accounts receivable	-	-	-	16,494
Employee Retention Credit receivable	434,206	-	434,206	-
Pledges and bequests receivable, net (Note 4)	-	141,856	141,856	290,842
Total Current Assets	4,169,862	240,667	4,410,529	4,173,099
Other Assets				
Net property and equipment (Note 7)	8,882,579	-	8,882,579	8,899,196
Operating lease right-of-use assets, net (Note 8)	44,030	-	44,030	-
Amortized loan costs	7,858	-	7,858	10,959
Total Other Assets	8,934,467	-	8,934,467	8,910,155
Total Assets	**$ 13,104,329**	**$ 240,667**	**$ 13,344,996**	**$ 13,083,254**

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total 2023	(Memo) Total 2022
Current Liabilities				
Accounts payable and accrued expenses	$ 140,848	$ -	$ 140,848	$ 60,553
Current portion of mortgage and notes payable (Note 9)	107,255	-	107,255	102,581
Operating lease right-of-use liability, current portion	10,605	-	10,605	-
Total Current Liabilities	258,708	-	258,708	163,134
Long-term Liabilities				
Mortgage and notes payable (Note 9)	2,541,052	-	2,541,052	3,012,644
Operating lease right-of-use liability, non-current portion	33,425	-	33,425	-
Total Long-Term Liabilities	2,574,477	-	2,574,477	3,012,644
Total Liabilities	2,833,185	-	2,833,185	3,175,778
Net Assets				
Without Donor Restrictions				
Operating net assets	3,887,285	-	3,887,285	3,686,030
Board designated	149,587	-	149,587	146,633
Property and equipment, net of related debt	6,234,272	-	6,234,272	5,783,971
Total Without Donor Restrictions	10,271,144	-	10,271,144	9,616,634
With Donor Restrictions	-	240,667	240,667	290,842
Total Net Assets	10,271,144	240,667	10,511,811	9,907,476
Total Liabilities and Net Assets	**$ 13,104,329**	**$ 240,667**	**$ 13,344,996**	**$ 13,083,254**

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

UNITY SHOPPE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	(Memo) Total 2022
Public Support and Revenue				
Public Support				
Contributions	$ 1,081,126	$ 310,000	$ 1,391,126	$ 2,252,819
In-kind contributions	2,924,341	-	2,924,341	2,146,277
Employee Retention Tax Credit	434,206	-	434,206	-
Other	-	-	-	1,249
Special events (net of expenses of $71,432 and $79,457)	538,801	-	538,801	467,733
Total Public Support	4,978,474	310,000	5,288,474	4,868,078
Revenue				
Retail store sales, net	253,133	-	253,133	179,066
Investment income (loss), net of fees	67,774	-	67,774	(33,732)
Net assets released from restrictions	360,175	(360,175)	-	-
Total Revenue	681,082	(360,175)	320,907	145,334
Total Public Support and Revenue	5,659,556	(50,175)	5,609,381	5,013,412
Expenses				
Program Services	4,519,929	-	4,519,929	4,029,127
Supporting Services				
Administrative	275,924	-	275,924	292,210
Fundraising	209,193	-	209,193	120,938
Total Supporting Services	485,117	-	485,117	413,148
Total Expenses	5,005,046	-	5,005,046	4,442,275
Change in Net Assets	**654,510**	**(50,175)**	**604,335**	**571,137**
Net Assets, Beginning of Year - Restated	9,616,634	290,842	9,907,476	9,336,339
Net Assets, End of Year	**$ 10,271,144**	**$ 240,667**	**$ 10,511,811**	**$ 9,907,476**

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

UNITY SHOPPE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Program Services	Administrative	Fundraising	Total 2023	(Memo) Total 2022
Payroll Related Expenses					
Salaries and wages	$ 883,906	$ 83,011	$ 139,891	$ 1,106,808	$ 1,184,543
Employee benefits	102,766	9,651	16,266	128,683	113,800
Payroll taxes	69,530	10,646	11,601	91,777	95,571
Total Payroll Related Expenses	1,056,202	103,308	167,758	1,327,268	1,393,914
Operating Expenses					
Accounting and HR consulting fees	15,408	37,686	-	53,094	34,651
Advertising and promotions	5,366	-	26,511	31,877	20,686
Bank fees	5,455	9,911	-	15,366	15,370
Delivery and auto	2,072	-	-	2,072	-
In kind distributions	2,867,302	-	-	2,867,302	2,214,714
Insurance	47,761	7,665	-	55,426	49,240
Interest expense	73,528	71,384	-	144,912	163,001
Licenses, fees and taxes	-	2,789	-	2,789	2,850
Occupancy	-	-	-	-	3,500
Office expenses	22,362	4,414	865	27,641	108,378
Outside services	49,282	7,442	6,184	62,908	37,715
Program expenses	104,630	-	7,875	112,505	77,395
Repairs and maintenance	54,545	-	-	54,545	63,381
Utilities	70,842	2,304	-	73,146	78,289
Total Operating Expenses	3,318,553	143,595	41,435	3,503,583	2,869,170
Depreciation and amortization	145,174	29,021	-	174,195	179,191
2023 Total Expenses	**$ 4,519,929**	**$ 275,924**	**$ 209,193**	**$ 5,005,046**	
2022 Total Expenses (Memo)	$ 4,029,127	$ 292,210	$ 120,938		$ 4,442,275

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

UNITY SHOPPE, INC.

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	2023	(Memo) 2022
Cash Flows from Operating Activities:		
Change in net assets	$ 604,335	$ 571,137
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	174,195	179,191
Amortization on right-of-use assets	10,178	-
Realized and unrealized (gain) loss on investments	(56,119)	33,890
Decrease (increase) in:		
Accounts and pledges receivable	165,480	(300,336)
Employee Retention Credit receivable	(434,206)	-
Inventory	(57,039)	68,438
Increase (decrease) in:		
Accounts payable and accrued expenses	80,295	(14,565)
Operating lease right-of-use liabilities	(10,178)	-
Net Cash Provided by Operating Activities	476,941	537,755
Cash Flows From Investing Activities:		
Purchase of property and equipment	(152,687)	(50,310)
Purchase of securities	(11,526)	(60,827)
Net Cash Used by Investing Activities	(164,213)	(111,137)
Cash Flows from Financing Activities:		
Principal paid on mortgages and notes	(466,918)	(443,393)
Net Cash Used By Financing Activities	(466,918)	(443,393)
Net Decrease in Cash	**(154,190)**	**(16,775)**
Cash - Beginning of Year	2,724,872	2,741,647
Cash - End of Year	**$ 2,570,682**	**$ 2,724,872**

	2023	2022
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 144,912	$ 163,001
Non-cash transactions consisted of the following:		
In-kind contributions	$ 2,924,341	$ 2,146,277
ROU assets obtained in exchange for operating lease obligations	$ 54,208	$ -

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

UNITY SHOPPE, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Unity Shoppe, Inc. (the Organization) is a nonprofit corporation that encourages self-sufficiency and independence by providing education and the necessities of life to families, children, seniors, and persons with disabilities during periodic times of crises. These necessities are provided in a dignified manner without regard to political affiliation, religious belief, or ethnic identity.

Basis of Accounting

The Organization uses the accrual basis of accounting, recognizing revenues when earned and expenses when incurred. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Description of Net Assets

The Organization reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions". Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities.

Cash and Cash Equivalents

The Organization classifies cash, money market accounts and time certificates held by financial institutions as cash and cash equivalents.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Management believes that all receivables are fully collectible; therefore, no allowance for uncollectible amounts has been recorded.

Employe Retention Credit Receivable

Employee Retention Credit receivable consists of amounts receivable from the government grant Employee Retention Credit Program and are considered fully collectible within one year. Laws and regulations concerning government programs, including the Employee Retention Credit established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Organization.

Investments

Investments are recorded at market value. All gains and losses on investments are reported as increases or decreases to unrestricted net assets specifically restricted by donors.

Inventory

Inventory is recorded at cost for purchased items and fair market value for donated items.

Property and Equipment

Equipment is recorded at cost or, if donated, at fair market value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specified purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. Assets with a cost of $1,000 or more and useful life of more than one year are capitalized.

Leases

The Organization has adopted FASB ASC 842, Leases, effective in these financial statements. As of July 1, 2022, and for the year ended June 30, 2023, the Organization had multiple noncancellable operating leases.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Further, the Organization elected a short-term lease extension policy, permitting the Organization to not apply the recognition requirements of this standard to short-term leases (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of net assets.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such 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, 2022, from which the summarized information was derived.

Contributions

All contributions are considered to be available for use without restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with restrictions.

In-Kind Contributions

The Organization solicits donations of items to be sold in its thrift store. The Organization records these donations at their estimated fair market value.

Donated Services

The Organization relies heavily on volunteers to perform certain services for some of its programs. Because these services do not meet specified criteria for recognition as income and expense, the value of these services has not been included in the Statement of Activities. Management estimates that over 1,700 local volunteers donated dozens of hours to Unity throughout the year. Many of these volunteers are local high school students completing their required Community Service Hours.

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 natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Estimates and assumptions include, but are not limited to depreciation, valuation of in-kind donations, estimated life of fixed assets, and allocation of expenses among programs. It is at least reasonably possible that the significant estimates used will change within the next year.

Tax Exempt Status

The Organization is a public benefit corporation and is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 2370(1)(d); therefore, no provision for income taxes is required. The Organization is not considered a private foundation.

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2023, the Organization had no uncertain tax positions requiring accrual.

The Organization files tax returns in California and U.S. federal jurisdictions. The Organization is no longer subject to U.S. federal and state examinations by tax authorities for fiscal years ending before June 30, 2019, and June 30, 2018, respectively.

Loan Fees

The Organization has amortized loan fees of two loans over their respective lives, 8 to 10 years. Loan fees were a total of $31,014 and amortization expense for the year ended June 30, 2023, was $3,101.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 25, 2024, the date the financial statements.

Note 2 – NEW STANDARD

In February 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition on the income statement.

The new standard is effective for the Organization as of July 1, 2022, and has been adopted for the year ended June 30, 2023. As of July 1, 2022, and for the year ended June 30, 2023, the Organization had multiple noncancellable operating leases.

Note 3 – BENEFICIARY INTEREST IN ASSETS HELD BY OTHERS

The Organization has transferred assets to the Santa Barbara Foundation (the Foundation), which is holding them as an agency fund for the benefit of the Organization. The Fund is subject to the Foundation's investment and spending policies, which currently result in a distribution to the Organization of 5% of the average quarterly value of the previous 12 quarters. The Organization has historically chosen to forego distributions from the Fund in favor of increasing the balance invested in the Fund. In accordance with California State law, the Foundation retains sole and absolute discretion over distributions from the Fund. However, the Fund Agreement allows the Foundation to seek the Organization's advice concerning the timing and amounts of distributions from the Fund to the Organization. The Organization also may request an extraordinary distribution from the Fund. The funding of any extraordinary distribution is at the Foundation's sole discretion.

The Organization reports the fair value of the Fund as Beneficial Interest in Assets Held by Others in the statement of financial position and reports distributions received as investment income. Changes in the value of the Fund are reported as gains or losses in the statement of activities. The value at June 30, 2023, is $149,587.

Note 4 – PLEDGES, GRANTS, AND BEQUESTS RECEIVABLE

Accounts receivable represent amounts due to the Organization for services rendered by the Organization through June 30, 2023. Pledges receivable represent multi-year commitments and irrevocable bequests by donors.

A provision for uncollectible accounts is determined based upon an analysis of the pledges, loans, grants and accounts receivable at the end of each fiscal year. Management expects no material write-offs for receivables at June 30, 2023; therefore, there no current provision has been made. All receivables are expected to be collected, in full, in the subsequent fiscal year.

Note 5 – INVESTMENTS

Investments consist of stocks and a small portfolio of alternate investments donated as part of a bequest. These investments totaled $316,555 and $253,654 at June 30, 2023, and June 30, 2022, respectively.

The following summarizes the investment return included as unrestricted revenue in the statement of activities for the year ended June 30, 2023:

Interest and dividend income	$ 12,034
Realized gain on sale of securities	2,702
Unrealized gain on value of securities	53,417
Investment fees	(379)
Total Investment Return	$ 67,774

Note 6 – FAIR VALUE MEASUREMENT

The Organization has established a framework for measuring fair value and expanding disclosures about fair value measurements. Accounting principles define 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. A fair value hierarchy gives the highest priory to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs that are supported by little or no market activity;

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy:
Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. As of June 30, 2023, there were no Level 3 investments.

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Cash held for investment – Cash held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

Note 6 – FAIR VALUE MEASUREMENT (continued)

Equities – Equities include mutual funds as well as a variety of publicly traded stocks from various industries invested for both growth and value. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

SBF agency fund – Santa Barbara Foundation agency fund includes a diversified portfolio of investments held for growth and value.

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at June 30, 2023:

Description	Level 1	Level 2	Level 3	Total
Cash held for investment	$ 19,316	$ -	$ -	$ 19,316
Equities	297,239	-	-	297,239
SBF agency fund	-	149,587	-	149,587
Total assets measured at fair value	$ 316,555	$ 149,587	$ -	$ 466,142

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2023; depreciation expense for the year ended June 30, 2023, totaled $174,195.

Land	$ 4,000,000
Building	5,870,599
Equipment	222,376
Vehicles	240,006
Total property and equipment	10,332,981
Less accumulated depreciation	(1,450,402)
Net property and equipment	$ 8,882,579

Note 8 – LEASES

At the inception or modification of a contract, the Organization assesses whether the contract is, or contains, a lease. The assessment is based on (1) whether the contract involves the use of a distinct identified asset, (2) whether the Organization obtains the right to substantially all the economic benefit from the use of the assets throughout the period, and (3) whether the Organization has the right to direct the use of the asset.

Note 8 – LEASES (continued)

The new accounting standard, described in Note 2, establishes a right-of-use (ROU) model requiring a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term of longer than 12 months. ROU assets represent the Organization's right to use an underlying asset during the reasonably certain lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. Leases are now classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities and changes in net assets. Lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of all minimum lease payments over the term of the lease. The initial measurement of ROU assets also includes any prepaid lease payments and are reduced by any previously accrued deferred rent. Lease terms include options to extend or terminate the lease when it is reasonably certain that such option will be exercised. For operating leases, lease expense is recognized on a straight line basis over the term of the lease. Management will periodically review the carrying value of ROU assets to determine whether impairment may exist.

The Organization leases office equipment under two operating leases which are payable in monthly installments of $513 and $505, terminating November 2026 and November 2027, respectively. The implementation of the new standard resulted in recording a non-cash transitional adjustment to operating lease ROU assets and operating lease liabilities of $54,208 and $54,208, respectively, as of July 1, 2022. The Organization has elected to use their incremental borrowing rate of 4.11% to discount the lease payments.

The Organization recognized $10,178 of amortization on the operating lease right-of-use assets, as well as $2,038 of interest on operating lease liabilities for the year ended June 30, 2023. Additionally, $10,178 of operating cash outflows was related to principal payments on operating lease liabilities. The weighted average remaining lease term of operating leases was approximately 4 years, and the discount rate used was 4.11%.

The following is a schedule of future operating lease payments, as of June 30:

2024	$ 12,216
2025	12,216
2026	12,216
2027	8,625
2028	2,525
Total minimum lease payments	47,798
Less imputed interest	(3,768)
Present value of minimum lease payments	$ 44,030

Note 9 – MORTGAGE AND NOTES PAYABLE

Mortgage payable to Community West Bank secured by a first deed of trust on the building located at 110 W Sola Street, Santa Barbara, CA. Monthly payments of $10,677 commenced August 17, 2017, and includes an initial interest rate of 4.58% per annum; a balloon payment of $840,742 on July 17, 2025. Outstanding balance at June 30, 2023, is $951,619. The interest rate on this loan is variable, and was 5.53% as of June 30, 2023.

Mortgage payable to Community West Bank secured by a first deed of trust on the building located at 1209 State Street, Santa Barbara, CA. Monthly payments of $11,139 commenced September 5, 2017, and includes an initial interest rate of 5.04% per annum; a balloon payment of $1,466,745 on July 5, 2027. Outstanding balance at June 30, 2023, is $1,696,688. The interest rate on this loan is variable, and was 4.11% as of June 30, 2023.

Principal payments are expected to be as follows:

June 30, 2024	$ 107,256
June 30, 2025	113,042
June 30, 2026	899,902
June 30, 2027	62,255
June 30, 2028	1,465,852
Total	$2,648,307

Note 10 – CONCENTRATIONS AND CREDIT RISK

Concentrations

The Organization derives the majority of its revenue for services rendered to residents that reside within Santa Barbara County.

Credit Risk

The Organization maintains cash balances insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. As of June 30, 2023, uninsured cash and cash equivalent balances totaled approximately $1,614,000.

Note 11 – LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Note 11 – LIQUIDITY (continued)

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2023:

Current assets		
Cash and cash equivalents available within one year	$	2,570,682
Pledges and bequests receivable		141,856
Employee Retention Credit receivable		434,206
Total Current Assets		3,146,744
Investments		316,555
Current liabilities		(258,708)
Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2023	$	3,204,591

Note 12 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by satisfying the restricted purposes specified by donors. For the year ended June 30, 2023, the passage of time restrictions resulted in net assets released from restriction of $360,175.

Note 13 – RESTATEMENT OF NET ASSETS

During the year ended the Organization became aware of a significant interest in a bequest which became irrevocable during the year ended June 30, 2022. As a result, net assets with donor restrictions as of June 30, 2022, have been increased by $290,842, and total net assets have been increased to $9,907,476.