

L'ARCHE WAVECREST
Financial Statements

December 31, 2020

(With Independent Accountants' Review Report Thereon)



L'ARCHE WAVECREST

Financial Statements

December 31, 2020

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Board of Directors
L'Arche Wavecrest
Orange, California

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

We have reviewed the accompanying statement of financial position of L'Arche Wavecrest (a nonprofit organization) as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Managements' 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Gruber and Lopez, Inc.

Gruber and Lopez, Inc.

Newport Beach, California
May 20, 2021

L'ARCHE WAVECREST
Statement of Financial Position
December 31, 2020
(see Independent Accountants' Review Report)
Unaudited

Assets

Cash and cash equivalents	\$	84,110
Contributions receivable		60,503
Prepaid expenses		5,840
Deposits		8,250
Loan costs, net		1,525
Property, furniture and equipment, net		<u>895,760</u>
Total assets	\$	<u><u>1,055,988</u></u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$	17,986
Loan payable to related party - current (Note 5)		12,728
Loan payable to related party - long-term (Note 5)		<u>397,138</u>
Total liabilities		<u>427,852</u>

Net assets (Note 6):

With donor restrictions		-
Without donor restrictions - undesignated		<u>628,136</u>
Total net assets (deficit)		<u>628,136</u>

Total liabilities and net assets	\$	<u><u>1,055,988</u></u>
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See accompanying notes to financial statements.

L'ARCHE WAVECREST
Statement of Activities
Year Ended December 31, 2020
(see Independent Accountants' Review Report)
Unaudited

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities:			
Revenues and other support:			
Contributions - government agencies (Note 3)	\$ 419,499		419,499
Contributions - other	109,534	-	109,534
Special events:			
Auction- (gross revenue of \$55,665 less \$500 direct expenses)	55,165	-	55,165
In-kind	36,202	-	36,202
Forgiveness of debt (Note 7)	54,282	-	54,282
Interest	19	-	19
Miscellaneous	192	-	192
Subtotal	<u>674,893</u>	<u>-</u>	<u>674,893</u>
Net assets released from donor restrictions (Note 6)	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>674,893</u>	<u>-</u>	<u>674,893</u>
Expenses:			
Program services	<u>474,813</u>	<u>-</u>	<u>474,813</u>
Supporting services:			
General and administrative	85,598	-	85,598
Fundraising	51,741	-	51,741
Subtotal supporting services	<u>137,339</u>	<u>-</u>	<u>137,339</u>
Total expenses	<u>612,152</u>	<u>-</u>	<u>612,152</u>
Change in net assets from operations	<u>62,741</u>	<u>-</u>	<u>62,741</u>
Non-operating activities:			
Investment income	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	62,741	-	62,741
Net assets (deficit) at beginning of year	<u>565,395</u>	<u>-</u>	<u>565,395</u>
Net assets (deficit) at end of year	<u>\$ 628,136</u>	<u>-</u>	<u>628,136</u>

See accompanying notes to financial statements.

L'ARCHE WAVECREST
Statement of Functional Expenses
Year Ended December 31, 2020
(see Independent Accountants' Review Report)
Unaudited

	Supporting Services			Subtotal	Total
	Program	General and Administrative	Fundraising		
Salaries and related expenses:					
Salaries	\$ 203,914	66,957	33,478	100,435	304,349
Employee benefits	15,579	5,115	2,558	7,673	23,252
Payroll taxes	19,231	6,315	3,157	9,472	28,703
Total salaries and related expenses	<u>238,724</u>	<u>78,387</u>	<u>39,193</u>	<u>117,580</u>	<u>356,304</u>
Other expenses:					
Household Expenses	20,062	-	-	-	20,062
Worker Program	7,425	-	-	-	7,425
House Rent	66,440	-	-	-	66,440
Food	27,827	-	-	-	27,827
In-kind - Food	18,452	-	-	-	18,452
Marketing	-	-	8,545	8,545	8,545
Maintenance	5,680	-	-	-	5,680
Mortgage Interest	20,112	-	-	-	20,112
Community Enrichment	2,627	-	-	-	2,627
Insurance	3,113	389	389	778	3,891
Auto Expenses	7,955	994	994	1,988	9,943
Compliance	4,097	-	-	-	4,097
Dues and Subscriptions	11,455	1,432	1,432	2,864	14,319
Solidarity	7,081	-	-	-	7,081
Office Expenses	1,554	194	194	388	1,942
Computer Software	952	119	119	238	1,190
Bank Fees and Other Fees	3,335	417	417	834	4,169
Property Taxes and Insurance	1,070	134	134	268	1,338
Accounting	6,176	1,235	824	2,059	8,235
Total other expenses	<u>215,413</u>	<u>4,914</u>	<u>13,048</u>	<u>17,962</u>	<u>233,375</u>
Total expenses before depreciation	<u>454,137</u>	<u>83,301</u>	<u>52,241</u>	<u>135,542</u>	<u>589,679</u>
Depreciation and amortization	<u>20,676</u>	<u>2,297</u>	<u>-</u>	<u>2,297</u>	<u>22,973</u>
Total expenses	<u>\$ 474,813</u>	<u>85,598</u>	<u>52,241</u>	<u>137,839</u>	<u>612,652</u>
Less expenses included in statement of activities	<u>\$ -</u>	<u>-</u>	<u>(500)</u>	<u>(500)</u>	<u>(500)</u>
Total expenses per statement of activities	<u>\$ 474,813</u>	<u>85,598</u>	<u>51,741</u>	<u>137,339</u>	<u>612,152</u>

See accompanying notes to financial statements.

L'ARCHE WAVECREST
Statement of Cash Flows
Year Ended December 31, 2020
(see Independent Accountants' Review Report)
Unaudited

Cash flows from operating activities:	
Change in net assets	\$ 62,741
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation and amortization	22,973
Decrease (increase) in pledges receivable	(48,252)
Decrease (increase) in deposits	-
(Decrease) increase in salaries and payroll taxes	3,350
(Decrease) increase in deposits payable	-
Net cash provided by (used for) operating activities	38,939
Cash flows from financing activities:	
Issuance of loan payable to related party	(12,370)
Net cash provided by (used for) financing activities	(12,370)
Increase (decrease) in cash and cash equivalents	15,055
Cash and cash equivalents at beginning of year	69,055
Cash and cash equivalents at end of year	\$ 84,110

Supplemental disclosure of cash flow information:

Cash paid for interest expense	\$ 20,112
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There were no non-cash investing or financing activities for the year ended December 31, 2020

See accompanying notes to financial statements.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 - ORGANIZATION

The significant accounting policies of the L'Arche Wavecrest (Organization) are presented to assist in the understanding of the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Operations

L'Arche Wavecrest is a 501(c)(3) nonprofit organization and was incorporated on June 4, 1999. The Organization's specific purpose is to create homes where people with disabilities, and those who can assist them, can live, work and pray together in a community of fellowship and harmony. Additionally, the Organization assists these individuals in revealing and nurturing their unique values, gifts and vocational abilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Financial Statement Presentation

The Organization's financial statements have been prepared on the accrual basis of accounting. In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Update (ASU) 2016-14 Not for Profit Entities [Topic 958]- Presentation of Financial Statements of Not-For Profit Entities*, The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

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

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

The Organization considers all unrestricted short-term investments with an original maturity of three (3) months or less to be cash equivalents.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Risk

The Organization maintains cash deposits with various financial institutions to limit its credit risk exposure to any one financial institution. The Organization also actively evaluates the credit worthiness of the institutions with which it invests. The balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash deposits may exceed federally insured limits at times during the year, however, at December 31, 2020 there were no cash balances exceeding the insurance limit. The Organization has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Fair Value Measurements

The Organization follows guidance issued by the ASC 820 *Fair Value Measurements*, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. This guidance establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair values into Levels 1, 2, and 3. Level 1 inputs consist of unadjusted quoted prices in active markets for identical instruments and have the highest priority. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are directly or indirectly observable. Level 3 inputs are unobservable and are given the lowest priority.

The Organization's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and loans payable are carried at cost, which approximates fair value because of the short-term nature of these instruments.

Contribution Revenue and Support

In accordance with ASC 958, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable

Unconditional contributions receivable to give that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met. The Organization uses the allowance method to determine uncollectible promises receivable. The allowance was estimated to be 0% and is based on prior years' experience and management's analysis of specified promises made.

As of December 31, 2020, the Organization's contributions receivable were classified as unconditional and were in the amount of \$60,503 less the allowance of \$0, all of which are expected to be collected within one year.

Property and Equipment, and Loan Cost

Property and equipment are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets which range from five to ten years for equipment and ten years for the building. Repairs and maintenance to property, plant and equipment are expensed as incurred. When property, plant and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts, and any gain or loss on such disposition is reflected in income. It is The Organization's policy to capitalize property and equipment over \$500. Total depreciation for the year ended December 31, 2020 was \$22,634. Loan costs of \$3,390 (net of \$1,864 of accumulated amortization) were incurred when the Maplewood property was purchased and have been capitalized and amortized over thirty years. Total amortization expense for the year ended December 31, 2020 was \$339.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Property and equipment consisted of the following at December 31, 2020:

Land	\$600,980
Buildings	259,020
Building improvements	154,555
Vehicles	63,429
Office equipment	11,510
House furniture	6,675
Computer equipment	<u>2,272</u>
Vehicles	1,098,441
Accumulated depreciation	<u>(202,681)</u>
	<u>\$ 895,760</u>

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Functional Expense Allocation

Costs of providing the Organization's programs and other activities have been presented in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, benefits, payroll taxes	Time and effort
Insurance	Time and effort
Auto	Time and effort
Dues and subscriptions	Time and effort
Office expenses	Time and effort
Computer software	Time and effort
Bank fees and other fees	Time and effort
Property taxes and insurance	Time and effort
Meetings and Travel	Time and effort
Accounting	Time and effort
Depreciation and amortization	Square footage

Income Tax Status

The Organization is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. The Center follows the provisions of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 740, Income Taxes. The Center's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2019, 2018, and 2017 are subject to examination by the IRS, generally for three years after they were filed.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing program services and interest and deposits. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Compensated Absences

Employees of the Organization are entitled to paid vacation and sick days. The Organization's management estimated the amount of compensation for future absences to be immaterial. Accordingly, no liability for compensated absences has been recorded in the accompanying financial statements.

Recent Accounting Pronouncement

The Organization adopted ASU 2018-08 *Contributions Received and Made* in 2019 and has adjusted the presentation of these statements accordingly in order to more consistently record revenue recognition from resource providers. In previous years, the Organization classified the majority of its grant revenue as exchange transactions, however, under the new guidance of ASU 2018-08 have reclassified the majority of its grant revenue as contributions. The Organization has also elected to use the modified prospective basis in adopting the change.

Use of Estimates

The preparation of financial statements requires the Organization to make estimates and assumptions that affect the reported amounts of assets and disclosures of contingent assets and liabilities, and the reported revenue and expenses. Actual results may differ from those estimates.

Marketing Costs

Total advertising expenses during the year ended December 31, 2020 were \$8,545.

NOTE 3 - SUMMARY OF GOVERNMENT AGENCY FUNDING

The Organization's government agency contract contributions for the year ended December 31, 2020 are summarized as follows:

RCOC	\$ 299,864
SSI	89,154
SGPRC	20,737
IRC	5,860
HRSA	3,884
Total	<u>\$ 419,499</u>

NOTE 4 - DONATED SERVICES AND SUPPLIES

Donations of services are recognized in the financial statements if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value. For the year ended December 31, 2020, the Organization did not receive any donated services or supplies that were required to be recognized.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 - LOAN PAYABLE

The loan payable consists of a mortgage note on the Maplewood property that was refinanced on July 10, 2015. The loan is secured by the property and matures in August 2025. The loan has the following payment terms:

Step1: First 84 months, payable \$2,707 per month with interest at 4.75%.

Step 2: Next 35 months to maturity, payable \$2,707 per month with interest adjusted based on the weekly 10 year normal constant maturity US Treasurer rate plus 2.5%.

Scheduled principal payments on loan payable are as follows:

<u>Year ending December 31:</u>	<u>Totals</u>
2021	\$12,728
2022	13,346
2023	14,674
2024	15,376
2025	<u>353,742</u>
Totals	<u>409,866</u>
Less current portion	<u>(12,728)</u>
Long-term portion	<u>\$397,138</u>

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended December 31, 2020, \$0 of net assets were released from donor restricted net assets as follows;

	<u>Donor Restricted Net Assets- Beginning of Year</u>	<u>Donor Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Donor Restricted Net Assets- End of Year</u>
Restricted for:				
None	\$ <u> -</u>	<u> -</u>	<u>(-)</u>	\$ <u> -</u>

Total net assets without donor restrictions was \$628,136 as of December 31, 2020 and was undesignated.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 - AVAILABILITY AND LIQUIDITY

The following represents The Organization financial assets at December 31, 2020:

Financial assets at year end:

Cash and cash equivalents	\$84,110
Contributions receivable	60,503
Prepaid assets	<u>1,169</u>
Total financial assets	<u>150,453</u>

Less amounts not available
to be used within 1 year:

Net assets with donor restrictions	-
Less net assets with purpose restrictions to be met within one year	<u>(-)</u>
Subtotal	<u>-</u>

Financial assets available to meet
general expenses over the next
12 months:

\$150,453

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$153,000). As part of its liquidity plan, the Organization only holds deposits.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

SBA Payroll Protection Program - In March 2020, Congress passed the Paycheck Protection Program (PPP), authorizing loans to small businesses for use in paying employees that they continue to employ throughout the COVID-19 pandemic and for rent, utilities and interest on mortgages. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met.

In April 2020, the Organization received a loan in the amount of \$54,282 through the PPP. To the extent it is not forgiven, the Organization would be required to repay that portion at an interest rate of 1% over a period of two years, beginning April 2021, with a final installment in April 2022.

As of December 31, 2020, the Organization has spent \$54,282 of the PPP loan on qualifying costs and has chosen to recognize the entire portion of the loan as forgiven, recognizing the forgiveness of debt as revenue in the accompanying *statement of activities*. Final approval of any loan forgiveness amount is subjected to the Small Business Administration, which management believes will be granted.

Government Agency Funding –Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

**L'ARCHE WAVECREST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 - COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases – The Organization entered into a 5 year lease for a house to expand their operations to assist 4 additional individuals with disabilities. The house lease began in August of 2019 and will run through July 2024. There is no current option to renew. The total lease expense for the year ended December 31, 2020 was \$66,440. Minimum rental commitments are as follows:

Year ending December 31:

2021	\$ 66,000
2022	66,000
2023	66,000
2024	<u>44,000</u>
Total future minimum lease payments	<u>\$242,000</u>

Other - The Organization is subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the Organization's financial statements.

NOTE 8 - SUBSEQUENT EVENTS

The Organization's operations may be affected by the recent and ongoing outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, possible effects may include, but are not limited to, a reduction in contributions which could have an impact on their operating results. There is uncertainty as to the severity and longevity of the outbreak and management is in the process of evaluating the impact on the organization and its financial statements. However, management believes the pandemic will not have a material effect on its operations due to consistent contributions from its loyal contributors and receipt of significant government agency grants in 2020 and 2021. Hence, no corresponding adjustment has been made to these financial statements.

Management has evaluated subsequent events through May 20, 2021, the date the financial statements were available to be issued.