LAUREL HOUSE

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

WITH INDEPENDENT AUDITORS' REPORT

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White Nelson Diehl Evans LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Laurel House
Tustin, California

We have audited the accompanying financial statements of Laurel House (the "Organization"), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors consider 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.

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Related-Party Relationship

The accompanying financial statements are those of Laurel House, which is under common control with Orange County Rescue Mission, and are not those of the primary reporting entity.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurel House as of September 30, 2018 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Diehl Evans LLP

Irvine, California
December 17, 2019

LAUREL HOUSE
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

ASSETS

	2019	2018
Assets:		
Cash and cash equivalents	$ 273,826	$ 637,890
Receivables	27,830	-
Prepaid expenses	6,000	462
Property and equipment, net	1,499,485	326,211
Total Assets	$ 1,807,141	$ 964,563

LIABILITIES AND NET ASSETS

	2019	2018
Liabilities:		
Accounts payable	$ 6,170	$ 59,962
Total Liabilities	6,170	59,962
Net Assets:		
Net Assets Without Donor Restrictions:		
Net investment in property and equipment	1,499,485	326,211
Available for program services	301,486	578,390
Total Net Assets	1,800,971	904,601
Total Liabilities and Net Assets	$ 1,807,141	$ 964,563

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

LAUREL HOUSE
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support, Revenues, and Gains:						
Contributions	$ 1,173,791	$ -	$ 1,173,791	$ 335,206	$ -	$ 335,206
Gifts in kind	93,766	-	93,766	103,490	-	103,490
Other income	7,075	-	7,075	15,000	-	15,000
Total Support, Revenues, and Gains	1,274,632	-	1,274,632	453,696	-	453,696
Expenses:						
Program services	328,387	-	328,387	295,316	-	295,316
Supporting Services:						
General and administrative	3,664	-	3,664	5,235	-	5,235
Fundraising	46,211	-	46,211	23,498	-	23,498
Total Supporting Services	49,875	-	49,875	28,733	-	28,733
Total Expenses	378,262	-	378,262	324,049	-	324,049
Increase in Net Assets	896,370	-	896,370	129,647	-	129,647
Net Assets, Beginning of Year	904,601	-	904,601	774,954	-	774,954
Net Assets, End of Year	$ 1,800,971	$ -	$ 1,800,971	$ 904,601	$ -	$ 904,601

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

LAUREL HOUSE
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Year Ended September 30, 2019				Year Ended September 30, 2018			
		Supporting Services				Supporting Services		
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Direct assistance - food, clothing, health-care education, recreation, childcare (includes gifts in kind)	$ 129,562	$ -	$ -	$ 129,562	$ 133,644	$ -	$ -	$ 133,644
Direct marketing	784		4,216	5,000	574	116	85	775
Compensation and related expenses	73,128	-	41,995	115,123	66,525	4,683	23,413	94,621
Professional fees	30,575	2,500	-	33,075	21,090	436	-	21,526
Occupancy, utilities, and maintenance	34,850	-	-	34,850	18,882	-	-	18,882
Depreciation	44,480	-	-	44,480	36,316	-	-	36,316
Dues, subscriptions, and training	333	-	-	333	-	-	-	-
Vehicles	5,005	-	-	5,005	11,406	-	-	11,406
Supplies	9,670	-	-	9,670	6,879	-	-	6,879
Other	-	1,164	-	1,164	-	-	-	-
Total Expenses	$ 328,387	$ 3,664	$ 46,211	$ 378,262	$ 295,316	$ 5,235	$ 23,498	$ 324,049

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

LAUREL HOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities:		
Increase in Net Assets	$ 896,370	$ 129,647
Adjustments to Reconcile Increase in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities:		
Donated gifts in kind	-	(2,295)
Distributed gifts in kind	-	2,295
Depreciation	44,480	36,316
Changes in Assets and Liabilities:		
Receivables	(27,830)	-
Prepaid expenses	(5,538)	(462)
Accounts payable	(53,792)	56,890
Net Cash and Cash Equivalents Provided by Operating Activities	853,690	222,391
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,217,754)	(4,450)
Net Cash and Cash Equivalents Used in Investing Activities	(1,217,754)	(4,450)
Net Increase (Decrease) in Cash and Cash Equivalents	(364,064)	217,941
Cash and Cash Equivalents, Beginning of Year	637,890	419,949
Cash and Cash Equivalents, End of Year	$ 273,826	$ 637,890
Supplemental Disclosure:		
Interest paid	$ -	$ -

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

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

Nature of Organization

Laurel House (the "Organization") is a charitable nonprofit organization incorporated on January 23, 1985, in the state of California. The specific objective and purpose of the Organization is to prevent homelessness among teenage girls and boys in Orange County, California, by providing temporary shelter and care, ongoing counseling, increased access to mental health resources, and enhanced academic support to teen girls and boys between the ages of 12 and 17 who are at risk of homelessness or who are runaways. It is the goal of the Organization to reunify these teen girls and boys with their families or move them into positive living situations when reunification is not possible.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative US GAAP.

Use of Estimates

The preparation of financial statements in accordance with US GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization's financial statements are presented in conformity with FASB Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under ASU 2016-14, 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 and net assets with donor restrictions.

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

Financial Statement Presentation (Continued)

Descriptions of the two net asset categories are as follows:

- *Net Assets Without Donor Restrictions* - Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions, including the carrying value of all unrestricted physical properties (land, building, and equipment). Items that affect (i.e., increase or decrease) this net asset category include revenue and contributions related to expenses associated with core programs.

- *Net Assets With Donor Restrictions* - Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity but permit an organization to use or expend part or all the income derived from the contribution. Donor-imposed restrictions are released when a restriction expires (that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both).

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are carried at cost if purchased or fair market value if contributed. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of $1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 10 to 40 years for building and improvements and from 5 to 7 years for furniture and equipment, computer equipment, and automobiles.

Long-lived assets, such as property and equipment, are reviewed on an ongoing basis for impairment based on a comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets' carrying amounts are adjusted to fair value.

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

Contributions and Grants

Contributions and grants are recognized when a donor makes a promise to give to an organization that is, in substance, unconditional. Contributions and grants 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 and grants are reported as increases in net assets with donor restrictions depending on the nature of the restrictions.

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

Gifts in Kind

Donated materials and contributed services are reflected in the accompanying financial statements at their estimated fair market value at the date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by a donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising costs for the years ended September 30, 2019 and 2018, were $4,216 and $775, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting activities based on direct costs. Expenses are allocated using direct costs: salaries and fringe benefits.

Income Taxes

The Organization is subject to income tax examinations for the current year and certain prior years based on applicable laws and regulations. The Organization is a California nonprofit corporation that has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and the State Revenue and Tax Code Section 23701(d). Accordingly, no provision of income taxes has been made in the accompanying financial statements.

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

Recent Accounting Pronouncement - Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities,* which changes the current guidance for asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity, and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: *net assets with donor restrictions* and *net assets without donor restrictions*. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profit organizations to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated.

In addition to the current required disclosure of the aggregate amount by which endowment funds are underwater, ASU 2016-14 requires not-for-profit entities to disclose the aggregate fair value of such funds, as well as the aggregate original gift amounts to be maintained. ASU-2016-14 also requires a not-for-profit entity to disclose its interpretation of the ability to spend from underwater endowment funds, including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. All underwater endowment funds will be classified as part of net assets with donor restrictions rather than as a charge to unrestricted net assets as per the current rules. In the absence of explicit donor restrictions, ASU-2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and supporting functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the statement of financial position date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Organization has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements as of and for the year ended September 30, 2019.

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

Recent Accounting Pronouncement - Adopted (Continued)

A summary of the net asset reclassifications driven by the adoption of FASB ASU 2016-14 as of September 30, 2018, is as follows:

As originally stated:	
Unrestricted Net Assets, End of Year	$ 904,601
As restated:	
Net Assets Without Donor Restrictions, End of Year	$ 904,601

New Accounting Pronouncements - Not Yet Required

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes new revenue recognition guidance ("ASC 606"), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASC 606 on the presentation of its financial statements.

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

Note 2: Liquidity

The Organization's financial assets available for general expenditure (that is, without donor or other restrictions limiting their use), within one year of the statement of financial position date, are as follows as of September 30, 2019:

Cash and cash equivalents	$ 273,826
Receivables	27,830
Prepaid expenses	6,000
Total Financial Assets Available to Meet General Expenditures Within One Year	$ 307,656

Note 3: Property and Equipment

Property and equipment consist of the following at September 30, 2019 and 2018:

	2019	2018
Land	$ 426,707	$ 150,700
Buildings	989,881	220,148
Building improvements	233,943	226,240
Vehicles	113,816	24,078
Furniture and fixtures	44,798	48,338
Construction in progress	54,400	-
Subtotal	1,863,545	669,504
Less: Accumulated depreciation	(364,060)	(343,293)
Property and Equipment, Net	$ 1,499,485	$ 326,211

On December 19, 2018, a residence was purchased to convert into a teenage boy's home similar to the girl's home. The residence is scheduled to open in January 2020.

Note 4: Affiliated Entities and Related-Party Transactions

Consolidation of entities is required when a reporting entity controls other organizations by having a majority voting interest and economic control. As previously discussed, OCRM has a majority voting interest in the Organization. For the years ended September 30, 2019 and 2018, it has been determined that an economic interest does exist for OCRM in the Organization. Consequently, the financial statements of the Organization are consolidated with the financial statements of OCRM.

Note 4: Affiliated Entities and Related-Party Transactions (Continued)

At September 30, 2019, receivables of $27,830 were due from OCRM. During the years ended September 30, 2019 and 2018, the Organization reimbursed OCRM $187,784 and $112,500, respectively, for salaries, benefits, and other expenses.

Note 5: Subsequent Events

Subsequent events were evaluated through December 17, 2019, which is the date the financial statements were available to be issued.