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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
CityTeam Ministries

We have audited the accompanying financial statements of CityTeam Ministries dba CityTeam (a California nonprofit organization), which comprise the Statements of Financial Position as of August 31, 2020 and 2019, and the related Statements of Activities, Statements of Functional Allocation of Expenses and Statements of 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.

Auditor's 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 auditor's 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 entity'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 entity'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 CityTeam Ministries dba CityTeam as of August 31, 2020 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.

San Jose, California
January 27, 2021



Seeba & Associates, Inc.
Certified Public Accountants

CITYTEAM MINISTRIES
dba CITYTEAM

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Current Assets:						
Cash and cash equivalents (Notes 2c, 3 and 4)	\$ 1,665,852	\$ 1,267,240	\$ 2,933,092	\$ 3,482,261	\$ 649,080	\$ 4,131,341
Investments (Notes 2d, 3 and 4)	6,334,755	-	6,334,755	1,654,351	-	1,654,351
Prepaid expenses and other assets	559,049	-	559,049	421,401	-	421,401
Total Current Assets	<u>8,559,656</u>	<u>1,267,240</u>	<u>9,826,896</u>	<u>5,558,013</u>	<u>649,080</u>	<u>6,207,093</u>
Long-Term Assets:						
Property and equipment, net (Notes 2e and 5):	<u>14,609,071</u>	<u>-</u>	<u>14,609,071</u>	<u>12,080,568</u>	<u>-</u>	<u>12,080,568</u>
Other Assets:						
Deposits	15,360	-	15,360	15,360	-	15,360
Assets held in trust (Note 6)	-	1,733,789	1,733,789	-	1,630,268	1,630,268
Funds committed for long-term purposes (Note 10)	14,771,783	-	14,771,783	16,304,929	-	16,304,929
Cash set aside for investment in property and equipment	<u>-</u>	<u>665,416</u>	<u>665,416</u>	<u>-</u>	<u>196,902</u>	<u>196,902</u>
Total Other Assets	<u>14,787,143</u>	<u>2,399,205</u>	<u>17,186,348</u>	<u>16,320,289</u>	<u>1,827,170</u>	<u>18,147,459</u>
Total Assets	<u>\$ 37,955,870</u>	<u>\$ 3,666,445</u>	<u>\$ 41,622,315</u>	<u>\$ 33,958,870</u>	<u>\$ 2,476,250</u>	<u>\$ 36,435,120</u>

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES
dba CITYTEAM

STATEMENTS OF FINANCIAL POSITION (Continued)
AUGUST 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable	\$ 339,309	\$ 2,906	\$ 342,215	\$ 245,617	\$ 2,879	\$ 248,496
Accrued expenses	545,415	-	545,415	428,691	-	428,691
Current portion of post-employment liability (Note 13)	-	-	-	98,068	-	98,068
Unearned program fees	-	-	-	41,037	-	41,037
Current portion of long-term debt (Note 8)	856,360	-	856,360	-	-	-
Total Current Liabilities	1,741,084	2,906	1,743,990	813,413	2,879	816,292
Long-Term Liabilities:						
Security deposits	36,000	-	36,000	21,000	-	21,000
Long-term debt, net of current portion (Note 8)	706,778	-	706,778	-	-	-
Trust beneficiaries' liability	-	1,143,835	1,143,835	-	1,081,002	1,081,002
Total Long-Term Liabilities	742,778	1,143,835	1,886,613	21,000	1,081,002	1,102,002
Total Liabilities	2,483,862	1,146,741	3,630,603	834,413	1,083,881	1,918,294
Commitment (Note 13)						
Subsequent Events (Note 19)						
Net Assets:						
With donor restrictions (Note 9)	-	2,519,704	2,519,704	-	1,392,369	1,392,369
Without donor restrictions -						
Net investment in property and equipment	14,609,071	-	14,609,071	12,080,568	-	12,080,568
Board-designated for specified purposes (Note 10)	19,230,346	-	19,230,346	20,804,929	-	20,804,929
Available for other purposes	1,632,591	-	1,632,591	238,960	-	238,960
Total Net Assets	35,472,008	2,519,704	37,991,712	33,124,457	1,392,369	34,516,826
Total Liabilities and Net Assets	\$ 37,955,870	\$ 3,666,445	\$ 41,622,315	\$ 33,958,870	\$ 2,476,250	\$ 36,435,120

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES
dba CITYTEAM

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Support:						
General contributions	\$ 12,479,114	\$ 2,745,815	\$ 15,224,929	\$ 9,518,929	\$ 2,963,410	\$ 12,482,339
Fundraising events, net of direct expenses of \$98,250 for 2020 and \$153,420 for 2019	1,057,532	-	1,057,532	1,475,275	-	1,475,275
Donated goods and services	12,502,113	-	12,502,113	13,060,346	65,980	13,126,326
Total Support	<u>26,038,759</u>	<u>2,745,815</u>	<u>28,784,574</u>	<u>24,054,550</u>	<u>3,029,390</u>	<u>27,083,940</u>
Revenue:						
Rental income, net of non-operating expenses of \$85,495 for 2020 and \$107,666 for 2019 (Note 12)	379,508	-	379,508	347,367	-	347,367
Program income	757,664	-	757,664	1,391,415	-	1,391,415
Gain/(Loss) on investments	(40,838)	-	(40,838)	50,963	-	50,963
Investment income	300,438	-	300,438	401,447	-	401,447
Other revenue	42,094	-	42,094	31,064	37,610	68,674
Gain on sales of property (Note 5d)	(689)	-	(689)	14,472,645	-	14,472,645
Total Revenue	<u>1,438,177</u>	<u>-</u>	<u>1,438,177</u>	<u>16,694,901</u>	<u>37,610</u>	<u>16,732,511</u>
Net Assets Released from Restrictions	995,127	(995,127)	-	603,675	(603,675)	-
Total Support and Revenue	<u>28,472,063</u>	<u>1,750,688</u>	<u>30,222,751</u>	<u>41,353,126</u>	<u>2,463,325</u>	<u>43,816,451</u>
EXPENSES						
Program Ministries	20,763,039	-	20,763,039	21,828,441	-	21,828,441
Supporting Services -						
General and administrative	2,549,547	-	2,549,547	2,366,880	-	2,366,880
Fundraising	3,435,279	-	3,435,279	3,194,881	-	3,194,881
Total Expenses	<u>26,747,865</u>	<u>-</u>	<u>26,747,865</u>	<u>27,390,202</u>	<u>-</u>	<u>27,390,202</u>

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES
dba CITYTEAM

STATEMENTS OF ACTIVITIES (Continued)
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
CHANGES IN NET ASSETS BEFORE RECLASSIFICATIONS	1,724,198	1,750,688	3,474,886	13,962,924	2,463,325	16,426,249
RECLASSIFICATIONS						
Net assets released from restrictions due to acquisition of fixed assets	623,353	(623,353)	-	2,236,959	(2,236,959)	-
TOTAL CHANGE IN NET ASSETS	2,347,551	1,127,335	3,474,886	16,199,883	226,366	16,426,249
NET ASSETS, beginning of year	33,124,457	1,392,369	34,516,826	16,924,574	1,166,003	18,090,577
NET ASSETS, end of year	\$ 35,472,008	\$ 2,519,704	\$ 37,991,712	\$ 33,124,457	\$ 1,392,369	\$ 34,516,826

The accompanying notes and auditors' report are an integral part of these financial statements.

**CITYTEAM MINISTRIES
dba CITYTEAM**

**STATEMENTS OF FUNCTIONAL ALLOCATION OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

	2020				2019			
	Program Expenses	General and Administrative Expenses	Fund Raising	Total	Program Expenses	General and Administrative Expenses	Fund Raising	Total
Salaries and wages	\$ 3,754,581	\$ 1,146,291	\$ 1,208,396	\$ 6,109,268	\$ 3,981,986	\$ 966,965	\$ 1,214,875	\$ 6,163,826
Staff benefits and other expenses	1,234,247	305,263	258,543	1,798,053	1,364,701	257,844	340,452	1,962,997
Contract services	53,518	16,373	-	69,891	72,617	-	-	72,617
Total salaries and staff expenses	5,042,346	1,467,927	1,466,939	7,977,212	5,419,304	1,224,809	1,555,327	8,199,440
Program supplies and client services	487,280	227	-	487,507	573,964	-	-	573,964
Donated program materials	12,323,472	-	-	12,323,472	12,891,499	-	-	12,891,499
Donated services	125,234	-	-	125,234	168,847	-	-	168,847
Marketing, advertising and promotion	3,298	2,961	1,643,856	1,650,115	970	-	1,282,921	1,283,891
Fundraising event expenses	-	-	98,250	98,250	-	-	153,420	153,420
Office expenses	31,488	37,346	83,383	152,217	38,560	43,260	77,135	158,955
Insurance	182,856	34,717	9,585	227,158	182,267	31,909	2,507	216,683
Professional fees	18,113	429,652	450	448,214	19,269	170,420	29,519	219,208
Information technology	188,788	121,811	102,191	412,790	323,813	172,989	89,187	585,989
Occupancy	1,521,781	269,531	114,191	1,905,503	1,391,541	200,286	99,984	1,691,811
Conferences, meetings and travel	17,632	13,556	3,685	34,873	26,933	13,348	5,317	45,598
Vehicle expense	181,518	104	-	181,622	192,834	2,390	2,353	197,577
Miscellaneous expenses	6,613	11,155	2,956	20,724	46,975	6,320	6,260	59,555
Bank fees and interest	-	181,080	-	181,080	39	131,761	-	131,800
Depreciation expense	632,620	64,975	8,044	705,639	551,626	477,054	44,371	1,073,051
Subtotal	20,763,039	2,635,042	3,533,529	26,931,610	21,828,441	2,474,546	3,348,301	27,651,288
Less: non-operating expenses netted with revenues on Statements of Activities	-	(85,495)	-	(85,495)	-	(107,666)	-	(107,666)
Less: direct fundraising expenses netted with revenues on Statements of Activities	-	-	(98,250)	(98,250)	-	-	(153,420)	(153,420)
Total Expenses	\$ 20,763,039	\$ 2,549,547	\$ 3,435,279	\$ 26,747,865	\$ 21,828,441	\$ 2,366,880	\$ 3,194,881	\$ 27,390,202

The accompanying notes and independent auditors' audit report are an integral part of this statement.

CITYTEAM MINISTRIES
dba CITYTEAM

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Cash Flows from Operating Activities -						
Cash received from contributions	\$ 11,574,853	\$ 2,705,154	\$ 14,280,007	\$ 9,100,807	\$ 3,015,920	\$ 12,116,727
Cash received from program income	757,664	-	757,664	1,391,415	-	1,391,415
Cash received from rental income	421,048	-	421,048	242,122	-	242,122
Cash received from dividend and interest income	300,438	-	300,438	401,447	-	401,447
Cash received from auto sales and other revenue	25,201	-	25,201	28,214	37,610	65,824
Cash disbursed for program ministries expenses	(7,334,474)	-	(7,334,474)	(8,076,801)	-	(8,076,801)
Cash disbursed for interest expense	(181,080)	-	(181,080)	(131,800)	-	(131,800)
Cash disbursed for general and administrative expenses	(2,437,361)	-	(2,437,361)	(1,758,065)	-	(1,758,065)
Cash disbursed for fundraising expenses	(2,417,613)	-	(2,417,613)	(1,743,376)	-	(1,743,376)
Restricted cash used for operations	995,127	(995,127)	-	603,675	(603,675)	-
Net Cash Flows From Operating Activities	<u>1,703,803</u>	<u>1,710,027</u>	<u>3,413,830</u>	<u>57,638</u>	<u>2,449,855</u>	<u>2,507,493</u>
Cash Flows from Investing Activities -						
Proceeds from sales of assets	1,251	-	1,251	17,364,963	-	17,364,963
Fixed assets purchased and/or constructed	(2,800,766)	(623,353)	(3,424,119)	(1,248,873)	(2,236,959)	(3,485,832)
Sale of investments	19,077,223	-	19,077,223	875,646	-	875,646
Purchase of investments	(21,111,058)	-	(21,111,058)	(60,620)	-	(60,620)
Net Cash Flows From Investing Activities	<u>(4,833,350)</u>	<u>(623,353)</u>	<u>(5,456,703)</u>	<u>16,931,116</u>	<u>(2,236,959)</u>	<u>14,694,157</u>
Cash Flows from Financing Activities -						
Cash received from PPP loan	1,563,138	-	1,563,138	-	-	-
Funds committed for long-term purposes	(250,000)	(468,514)	(718,514)	(16,304,929)	(134,286)	(16,439,215)
Net Cash Flows From Financing Activities	<u>1,313,138</u>	<u>(468,514)</u>	<u>844,624</u>	<u>(16,304,929)</u>	<u>(134,286)</u>	<u>(16,439,215)</u>
Net Increase/(Decrease) in Cash	(1,816,409)	618,160	(1,198,249)	683,825	78,610	762,435
Cash and Cash Equivalents, beginning of year	<u>3,482,261</u>	<u>649,080</u>	<u>4,131,341</u>	<u>2,798,436</u>	<u>570,470</u>	<u>3,368,906</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,665,852</u>	<u>\$ 1,267,240</u>	<u>\$ 2,933,092</u>	<u>\$ 3,482,261</u>	<u>\$ 649,080</u>	<u>\$ 4,131,341</u>

See Note 15 for supplemental disclosures.

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES
dba CITYTEAM

**RECONCILIATIONS OF CHANGES IN NET ASSETS
TO NET CASH FLOWS FROM OPERATING ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets before capital reclassification	\$ 1,724,198	\$ 1,750,688	\$ 3,474,886	\$ 13,962,924	\$ 2,463,325	\$ 16,426,249
Adjustment for noncash (revenue) and expense items -						
Depreciation	705,639	-	705,639	725,844	-	725,844
Change in estimated useful life of capital asset	-	-	-	347,207	-	347,207
Donated fixed assets	(46,853)	-	(46,853)	(65,979)	-	(65,979)
(Gain)/loss on asset disposition	689	-	689	(14,472,645)	-	(14,472,645)
(Increase)/decrease in assets -						
Inventory	-	-	-	36,266	-	36,266
Donated stock	(904,261)	-	(904,261)	(397,898)	-	(397,898)
Assets held in trust	-	(103,521)	(103,521)	-	(6,396)	(6,396)
Receivables and prepaid expenses	(137,648)	-	(137,648)	(57,640)	-	(57,640)
Construction in progress expensed	247,557	-	247,557	-	-	-
(Gain)/loss on investments	40,838	-	40,838	(50,963)	-	(50,963)
Increase/(decrease) in liabilities -						
Liability to trust beneficiaries	-	62,833	62,833	-	(6,908)	(6,908)
Accounts payable, deposits and accrued expenses	114,681	27	114,708	12,382	(166)	12,216
Unearned program fees	(41,037)	-	(41,037)	18,140	-	18,140
Net cash flows from operating activities	<u>\$ 1,703,803</u>	<u>\$ 1,710,027</u>	<u>\$ 3,413,830</u>	<u>\$ 57,638</u>	<u>\$ 2,449,855</u>	<u>\$ 2,507,493</u>

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES
dba CITYTEAM
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

1. ORGANIZATION

CityTeam Ministries dba CityTeam (“the Organization”) is a Christian non-profit 501(c)(3) organization founded in 1957 with operations in California, Oregon and Pennsylvania.

CityTeam’s mission is to share Christ’s unconditional and redemptive love by caring for immediate needs and enabling lasting solutions. For six decades, CityTeam has been working to address poverty, hunger, homelessness, and addiction in our community. Today, the face of poverty is changing. Driven by rising cost of living, a growing number of our neighbors are living with food insecurity, and the number of people experiencing homelessness is rapidly expanding.

Through a year of a global pandemic, CityTeam expanded food distribution by providing more hot meals, fresh food and groceries to at risk families and individuals. Together with our communities, we adapted programs and services, created new partnerships and collaborations, and expanded outreach efforts to provide food for a larger number of neighborhoods in need.

CityTeam is also responding to these growing needs by broadening our programs. We know the best way to prevent homelessness is to stop it before it takes hold of someone’s life. To that end, we have launched a new strategic plan and five-year vision designed to continue our core food, shelter and residential programs, while expanding our focus on preventing chronic homelessness. We are moving rapidly to address the changing dynamics of urban poverty and homelessness with new and expanded solutions.

Programs – Caring for Immediate Needs

CityTeam in the Neighborhood – Neighborhood outreach programs that help relieve the challenges that low-income families face to put food on the table and make ends meet.

CityTeam Connect – Helping people connect to the CityTeam community and to critical services men and women need. Every connection – whether providing hot meals, shelter beds, showers, clothing or medical care – is an opportunity to create a relationship that opens the door to lasting solutions.

Programs – Enabling Lasting Solutions

CityTeam @ Work – Providing education, training and certification programs to help people attain living-wage jobs, affordable housing, and budget for financial sustainability.

CityTeam Renew – Residential care program to give people a new start at life, restored from the grips of homelessness and addiction.

CityTeam Forward – Bridge housing to provide affordable living to help graduates move forward as active members of the community and create a strong foundation for bringing families back together.

CityTeam Turning Point – Bridge housing program designed to help people make a turn and get back on their feet when sudden homelessness happens or when someone becomes at risk of homelessness.

CityTeam Youth Collective – Residential supportive housing program helping to prevent homelessness by providing a loving community for at-risk youth.

We believe that through these key programs, CityTeam will have an even greater reach and deeper impact in the coming years.

CITYTEAM MINISTRIES
dba CITYTEAM
NOTES TO FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CityTeam prepares its financial statements using the accrual-basis method of accounting in accordance with generally accepted accounting principles. The significant accounting policies used are described as follows:

a. **Classes of Net Assets**

The financial statements report amounts separately by class of net assets:

- **Net assets without donor restrictions** – These net assets include those assets over which the Board of Directors has discretionary control in carrying out CityTeam operations. Included are an operating fund, assets designated by the Board for specific purposes, and resources invested in land, buildings and equipment.
- **Net assets with donor restrictions** – These net assets include those assets that are subject to donor restriction for which the applicable restriction was not met as of the end of the fiscal year.

b. **Contributions**

Contributions are recognized as income in the Statements of Activities when cash or ownership of donated assets is transferred to the Organization. Contributions received are recorded as increases in 'net assets without donor restrictions' or 'net assets with donor restrictions', depending on the existence and/or nature of any donor restrictions. When the time restriction ends or the purpose restriction is accomplished, the amount is shown as a reclassification of restricted net assets to unrestricted net assets and it is also reported in the Statement of Activities as 'net assets released from restrictions'. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment, or on assets restricted for acquiring property or equipment expire when the property or equipment is placed in service.

Pledges are recorded when CityTeam is notified of an unconditional promise to give. All outstanding pledges are reviewed annually and those determined uncollectible are written off.

c. **Cash and Cash Equivalents Definition**

For the purposes of the Statements of Financial Position and the Statements of Cash Flows, cash is defined as all monies on hand and in banks, money market funds, and highly liquid investments with original maturity dates of three months or less.

d. **Investments**

Investments are carried at estimated fair market value. Donated securities are recorded at the fair market value on the date of the gift. All unrealized gains and losses are recorded as income for the current year as required by generally accepted accounting principles.

e. **Property and Equipment**

Property and equipment is recorded at cost if purchased or at fair market value if donated. In accordance with generally accepted accounting principles, no allowance has been made for any appreciation or recognition of current fair market value. The capitalization threshold for fixed assets acquired is \$2,500.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	3-50 years
Furniture and equipment	2-15 years
Vehicles	2-10 years

CITYTEAM MINISTRIES
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NOTES TO FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2020 AND 2019

f. **Income Allocations – With and Without Donor Restrictions**

All gains and losses arising from the sale, collection or other disposition of investments and fixed assets are treated as unrestricted unless restricted by the donor. Ordinary income derived from investments, receivables, and the like, is also treated as unrestricted unless restricted by the donor.

g. **Contributions In-Kind**

Many of CityTeam's programs are heavily dependent upon the receipt of donated goods and services. Donated goods, including items such as food, clothing and household furnishings, are recorded at their estimated fair value. Contributed services, which require a specialized skill and which CityTeam would have paid for if not donated, such as medical services, are recorded at the estimated fair value. CityTeam also receives donated services that do not require specific expertise but are nonetheless central to its operations. The financial statements do not reflect the value of these other contributed services because they do not meet the recognition criteria required by generally accepted accounting principles. If these activities could be valued in the accompanying financial statements, their inclusion would significantly increase the percent of expenses attributable to direct program expenditures.

h. **Functional Allocation of Expenses**

Directly identifiable expenses are charged to program and support services. Program services are those related to the purpose for which the Organization exists. Support services are those not directly related to the Organization's purpose but necessary for the conduct of business, such as general and administrative and fundraising. Indirect functional expenses, such as IT Services, are allocated to program and support services based on headcount or estimated usage.

i. **Use of Estimates**

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 these estimates.

j. **Fair Value of Financial Instruments**

Fair value is defined 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 hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of CityTeam. Unobservable inputs reflect CityTeam's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Quoted market prices for identical instruments in active markets.

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, observable inputs other than quoted prices, inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Valuation models in which significant inputs are unobservable or where there is little market activity, if any.

The carrying amounts of financial instruments, including cash, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short-term maturities of these instruments.

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k. **Tax Exemption Status**

CityTeam Ministries dba CityTeam is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and comparable state laws. In prior fiscal years, CityTeam was exempt as a publicly supported charity. In September 2019, the Internal Revenue Service re-determined CityTeam's exempt status to be a church, which is still a type of public charity. The Organization was previously required to file annual Form 990 information returns. With the re-determination by the IRS, CityTeam is no longer required to file annual Form 990 information returns. In the interest of transparency, Management has decided to voluntarily continue to file annual Form 990 information returns. Contributions to CityTeam Ministries are tax deductible within the limitations prescribed by the IRC. It is the opinion of Management that all income earned relates to the Organization's tax-exempt status and there is no unrelated taxable income. Prior year filings for fiscal years ending August 31, 2019, 2018 and 2017 are still open for IRS examination and, therefore, subject to revision.

l. **Accounting Standard Update**

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional or unconditional.

The Organization adopted ASU 2018-08 with a date of the initial application of September 1, 2019 using the modified prospective method. The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and has determined that there is no significant change as a result of the adoption of the standard.

m. **Reclassifications**

Certain amounts in the prior-year financial statements have been reclassified to be comparable with the current year presentation.

n. **Subsequent Events**

Subsequent events have been evaluated through January 27, 2021, which is the date the financial statements were available to be issued.

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3. CASH, CASH EQUIVALENTS & INVESTMENTS

a. As of August 31, 2020 and 2019, cash, cash equivalents and investments consisted of the following:

	2020		2019	
	Balance	Average Rate	Balance	Average Rate
Cash and cash equivalents:				
Demand deposits - noninterest bearing	\$ 2,675,935		\$ 1,278,571	
Money market (Brokerage)	649,710	1.11%	2,777,757	2.29%
Money market (Bank)	2,342	0.03%	2,342	0.03%
Money market (Credit Union)	270,521	0.35%	269,573	0.37%
Less: cash set aside for property and equipment	(665,416)		(196,902)	
Total cash and cash equivalents	2,933,092		4,131,341	
Investments:				
Certificates of Deposit	2,893,781		514,201	
Treasury notes	18,201,712		17,434,202	
Other investments	11,045		10,877	
Less: funds committed for long-term purposes	(14,771,783)		(16,304,929)	
Total investments	6,334,755		1,654,351	
Funds committed for long-term purposes	14,771,783		16,304,929	
Cash set aside for property and equipment	665,416		196,902	
Total assets held for long-term purposes	15,437,199		16,501,831	
Total cash, cash equivalents and investments	\$ 24,705,046		\$ 22,287,523	

b. As of August 31, 2020, \$1,500,865 of cash held on deposit were not covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC), the Security Investors Protection Corporation (SIPC), and the National Credit Union Administration (NCUA).

c. The Organization's cash accounts are held by various financial institutions.

d. Investments are carried at fair value. See Note 6 regarding investments managed under a trust arrangement. Certificates of Deposit are carried at cost plus accrued interest, which approximates market value. Certificates of Deposit have interest rates ranging between 0.10% and 0.75%, with interest paid periodically. US Treasury Notes have interest rates ranging from 0.083% to 0.101%, with interest paid periodically.

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of CityTeam's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

CityTeam's investment policy is to maintain a moderately conservative but balanced portfolio, with the primary investment objectives being the preservation of purchasing power and the preservation of capital. CityTeam's investment portfolio is structured and maintained with the overall objective of providing the resources and liquidity for the Organization to fund its operations. Investments consist of Certificate of Deposits, Money Markets and US Treasury Bonds. CityTeam manages on-going operational and program spending to be in-line with its current operating revenue. However, in the event there is a shortfall of funds, the Board of Trustees has designated an operating reserve fund for \$4,000,000 from which the Organization can draw upon. Any drawdowns from the operating reserve fund are expected to be replenished within a reasonably short period of time.

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Short-term receivables consist of accounts receivable expected to be received within one year from August 31, 2020. Short-term receivables without donor restrictions will be available to support general operations of CityTeam.

The following is a quantitative disclosure of financial assets as of August 31, 2020 available to fund general expenditures and obligations for one year:

Financial assets	
Cash and cash equivalents	\$ 2,933,092
Investments	6,334,755
Receivables	71,174
Charitable remainder trusts - net	589,954
Funds committed for long-term purposes	14,771,783
Cash set aside for investment in property and equipment	<u>665,416</u>
	25,366,174
Less: amounts unavailable for general expenditures within one year:	
Board designated operating reserve fund	(4,000,000)
Board designated for program expansion	(15,230,346)
Donor restricted for time or a specific purpose	<u>(2,519,704)</u>
	(21,750,050)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,616,124</u>

5. PROPERTY AND EQUIPMENT

a. Property, equipment and accumulated depreciation as of August 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 5,961,774	\$ 4,122,006
Buildings and improvements	16,084,204	14,399,413
Furniture and equipment	1,649,246	2,009,529
Leasehold improvements	472,228	472,228
Vehicles	939,136	887,569
	<u>25,106,588</u>	<u>21,890,745</u>
Less: accumulated depreciation	<u>(11,867,895)</u>	<u>(11,729,565)</u>
	13,238,693	10,161,180
Construction in progress	<u>1,370,378</u>	<u>1,919,388</u>
Total	<u>\$ 14,609,071</u>	<u>\$ 12,080,568</u>

b. Land and improvements includes \$5,525,566 and \$3,723,213 of land that is not depreciated as of August 31, 2020 and 2019, respectively.

c. The leasehold improvements are primarily upgrades to properties located in San Francisco and San Jose, California. These improvements are being amortized over the life of the respective leases plus lease renewal options. Accumulated amortization on the leasehold improvements is \$364,915 and \$285,799 as of August 31, 2020 and 2019, respectively.

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d. In December of 2018, CityTeam sold the properties located at 2302-2306 Zanker Road, San Jose, California. The property was split into two parcels and sold to two buyers. The property located at 2304-2306 Zanker Road was sold for \$8,100,000 and the property located at 2302 Zanker Road was sold for \$10,100,000. The gain on sale was \$14,650,877 and is included in the gain on sale of property on the August 31, 2019 Statement of Activities. In keeping with CityTeam's new strategic plan to expand its' programs, proceeds from the sale of the Zanker Road properties were designated by the board for the purpose of long-term capital expansion (the "Vision Fund"). The following properties were acquired during 2020 and 2019 using a combination of restricted donor contributions and Vision funds:

- In January 2019, the Organization purchased a residential property in Oakland, California for \$949,650. The residence was purchased for the CityTeam Turning Point program, helping women who are homeless or at risk of homelessness to get back on their feet.
- In January 2019, the Organization purchased a residential property in San Jose, California for \$1,410,000. This residential home was purchased with a gift from a single donor for the CityTeam Forward program, a post-recovery program helping women to move forward as active members of the community.
- In March 2019, the Organization purchased a residential property in Chester, Pennsylvania for \$150,000. The property, which includes six individual homes, was purchased for the CityTeam Forward program, providing post-recovery bridge housing for men.
- In December 2019, the Organization purchased two residential properties in Chester, Pennsylvania for a total purchase price of \$435,000. These properties were purchased to launch a new CityTeam Turning Point program for women who are either homeless or at risk of homelessness. This is the first residential program for women offered by CityTeam in Chester. One of the homes is for single women and the other is for single women with children.
- In December 2019, the Organization purchased a residential property in San Jose, California for \$1,070,000. This property, which was previously leased by CityTeam, will continue to be used as part of the CityTeam Youth Collective program for women.
- In August 2020, the Organization purchased a residential property in Oakland, California for \$750,000. The property was purchased for the CityTeam Forward program, a post-recovery program providing bridge housing for men.

6. ASSETS HELD IN TRUST

Based upon generally accepted accounting principles, the assets of irrevocable split-interest trusts for which CityTeam is trustee are reported on the financial statements. These assets are reported at their present value, discounted at an average earnings rate over the Trust's term or the grantor's life expectancy. The portion of the trusts attributable to the irrevocable future interest of CityTeam has been recorded in the Statement of Activities as donor-restricted contributions in the period received or as the value changes.

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The balances of the trusts' assets, liabilities and current changes for the year ended August 31, 2020 are:

	<u>Total</u>	<u>Income Beneficiaries & Other Remaindermen</u>	<u>CityTeam Remainder Interest</u>
Fair Market Value			
As of August 31, 2020	\$ 1,733,789	\$ 1,146,741	\$ 587,048
Present Value of Remainder Interest			
As of August 31, 2019	\$ 923,440	\$ 377,053	\$ 546,387
Actuarial Adjustment	80,800	40,139	40,661
As of August 31, 2020	\$ 1,004,240	\$ 417,192	\$ 587,048

The balances of the trusts' assets, liabilities and current changes for the year ended August 31, 2019 are:

	<u>Total</u>	<u>Income Beneficiaries & Other Remaindermen</u>	<u>CityTeam Remainder Interest</u>
Fair Market Value			
As of August 31, 2019	\$ 1,630,268	\$ 1,083,881	\$ 546,387
Present Value of Remainder Interest			
As of August 31, 2018	\$ 895,670	\$ 362,753	\$ 532,917
Actuarial Adjustment	27,770	14,300	13,470
As of August 31, 2019	\$ 923,440	\$ 377,053	\$ 546,387

7. LINE OF CREDIT

A \$250,000 line of credit is available from Comerica at the Bank's reference rate plus 0.25%. No amounts were borrowed or outstanding on this line of credit as of August 31, 2020 or August 31, 2019.

8. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act commonly referred to as the "CARES Act". One component of the CARES Act was the Paycheck Protection Program ("PPP") which provides small businesses with the resources needed to maintain their payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration ("SBA") with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities.

On April 25, 2020, CityTeam qualified for and received a loan pursuant to the PPP from a qualified lender (the "PPP lender"), for an aggregate principal amount of \$1,558,000. The loan is a two-year loan with a maturity date of April 25, 2022 and bears an annual interest rate of 1%. The loan shall be payable monthly with the first ten monthly payments deferred. It is CityTeam's intent to apply for forgiveness under the provision of Section 1106 of the CARES Act. Loan forgiveness is subject to the sole approval of the SBA. CityTeam is eligible for loan forgiveness in an amount equal to payments made during the ten-month period beginning on the loan date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll expenses. CityTeam used all loan proceeds to partially subsidize direct payroll and other permitted expenses. CityTeam plans to submit its forgiveness application during the year ending August 31, 2021. The loan will be recognized as income in the statement of activities in the period CityTeam receives formal approval of forgiveness.

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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at August 31, 2020 and 2019 consist of monies received for various restricted projects. The nature and amount of the restrictions are as follows:

	2020	2019
Programs	\$ 1,267,240	\$ 649,080
Trusts	587,048	546,387
Capital	665,416	196,902
Total Donor-Restricted Net Assets	\$ 2,519,704	\$ 1,392,369

10. DESIGNATED NET ASSETS

Net assets designated for specified purposes at August 31, 2020 and 2019 consist of monies designated as follows:

	2020	2019
Operating Reserve	\$ 4,000,000	\$ 4,000,000
Vision Fund short-term	458,563	500,000
Vision Fund long-term	14,771,783	16,304,929
Total Board Designated Net Assets	\$ 19,230,346	\$ 20,804,929

The funds designated for operating reserves include approximately four months of the coming fiscal year's budget. In 2019, the board designated the proceeds from the sale of the two buildings on Zanker Road in San Jose, California, as discussed in Note 5d, to be used for long-term capital expansion purposes (the "Vision Fund"). The board also approved a portion of the Vision Fund to be used for short-term operational funding for newly launched programs. All projects receiving Vision Funds require prior board approval.

11. RETIREMENT PLANS

The employee retirement plan, which qualifies as a 403(b) plan, covers all employees who have completed one year of service, are at least 21 years old and work at least an average of 20 hours a week. Employer contributions vest to the employee over six years. Employees' contributions are always fully vested. Age and service requirements do not apply to the employees' ability to make salary reduction contributions to this plan.

Effective October 1, 2017 the plan was amended to provide for CityTeam to increase the employer contribution from 1.15% to 2.00%. Effective February 1, 2019 the plan was amended to increase the employer contribution to 2.50%. Effective February 1, 2020 the plan was amended to increase the employer contribution to 3.00%. Contributions on behalf of all qualified employees totaled \$129,266 in 2020 and \$97,801 in 2019.

12. RENTAL INCOME

- a. CityTeam has a rental lease with a tenant for a 30,000 square foot building located in San Jose, California. Amendments to the lease extend the term through August 31, 2022 but early termination is permitted as of August 31, 2021. Monthly payments of \$36,000 were in place for fiscal year ending August 31, 2020. Monthly base rent of \$37,080 began September 1, 2020. Annual increases are set at three percent. The cost basis of this property is \$1,709,328 and the associated accumulated depreciation is \$575,340.
- b. During the years ended August 31, 2020 and 2019, \$465,003 and \$455,033, respectively, of rental income was generated from tenants. Rental income reported on the Statement of Activities includes rents from properties with lease terms less than one year that are not included above.

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13. COMMITMENTS AND CONTINGENCIES

Severance agreement

In January 2017, the Organization signed a severance pay agreement which obligated them to pay a total of \$400,000 to a previous employee over the next four years. As of August 31, 2020, all payments had been made.

Litigation

In October, 2020, CityTeam's landlord filed suit against CityTeam and two other entities regarding the landlord's purchase of real property from CityTeam. We believe the litigation is without merit and intend to vigorously defend CityTeam against the lawsuit.

COVID-19 impact

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders.

During the COVID-19 pandemic, the services of the Organization have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, the Organization is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it impacts its program participants, contractors and sub-contractors, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts its ability to provide services to its program participants. The Organization believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of its control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact the business of the Organization.

14. OPERATING LEASE COMMITMENT

The Organization leases facilities under operating lease agreements which require monthly payments ranging from \$3,650 to \$11,360 per month and expiring at various dates through December 2022.

Total annual rent expense was approximately \$347,710 and \$321,188 for the years ended August 31, 2020 and 2019, respectively. Approximate future minimum lease payments are as follows:

Year ending	
August 31,	
2021	\$ 333,430
2022	38,477
Total	<u>\$ 371,907</u>

15. STATEMENT OF CASH FLOWS

- a. The Statements of Cash Flows have been prepared using the direct method of reporting cash flows from operations. The direct method provides reporting of major classes of gross cash receipts and gross cash payments.
- b. Noncash transactions not reflected in the Statements of Cash Flows for 2020 consist of \$12,667 of fixed assets in accounts payable.
- c. Noncash transactions not reflected in the Statements of Cash Flows for 2019 consist of \$30,132 of fixed assets in accounts payable.

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16. FAIR VALUE MEASUREMENTS

The Organization's assets and liabilities, recorded at fair value, have been categorized based upon a fair value hierarchy in accordance with generally accepted accounting principles (See Note 2j). The following table presents information about the Organization's assets and liabilities measured at fair value.

	2019	2020			Total
	Total	Level 1	Level 2	Level 3	
Assets:					
Other investments-stocks and bonds (1)	\$ 10,877	\$ 11,045	\$ -	\$ -	\$ 11,045
Brokerage investments:					
Treasury Notes (2)	17,434,202	18,201,712	-	-	18,201,712
CD's (3)	514,201	-	2,893,781	-	2,893,781
Funds held in split-interest trusts (4)	1,630,268	-	-	1,733,789	1,733,789
Total assets	\$ 19,589,548	\$ 18,212,757	\$ 2,893,781	\$ 1,733,789	\$ 22,840,327
Liabilities:					
Trust obligations (5)	\$ 1,081,002	\$ -	\$ -	\$ 1,143,835	\$ 1,143,835
Severance obligation (6)	98,068	-	-	-	-
Total liabilities	\$ 1,179,070	\$ -	\$ -	\$ 1,143,835	\$ 1,143,835

- (1) Level 1 Assets include a diversified portfolio of global stocks, bonds, U.S. short-term and global bonds and U.S. and global fixed income. These investments are freely tradable and are valued based on quoted prices from active markets.
- (2) Level 1 Assets include US Treasury Notes traded on recognized exchanges. These investments are freely tradable and are valued base on quoted prices from active markets.
- (3) Level 2 Assets include Certificates of Deposit (CD's) which are valued at cost plus unrealized gain/(loss) which approximates fair value.
- (4) Level 3 Assets include split-interest trust agreements. The fair value of the Trusts is based on the fair value of the underlying investments. On an annual basis, the Organization revalues the fair market value of the Trusts based on current market information (See Note 6).
- (5) Level 3 Liabilities include split-interest charitable trust liabilities. On an annual basis, the Organization revalues the liability for distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using applicable mortality rates and a discount rate of 0.4 and 2.2 percent for August 31, 2020 and 2019, respectively (See Note 6).
- (6) Level 3 Liabilities include a severance payment obligation to a former employee. The present value of the future payments was calculated using a discount rate of 1.97 percent.

Changes in Level 3 assets and liabilities are summarized as follows:

	Level 3 Assets
Beginning Balance	\$ 1,630,268
Increase in fair value of assets held in Split Interest Trusts due to investment changes	103,521
Ending Balance	<u>\$ 1,733,789</u>

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	Level 3 Liabilities
Beginning Balance	\$ 1,179,070
Decrease in Split Interest Obligations due to actuarial changes	62,833
Severance obligation liability paid	(98,068)
Ending Balance	\$ 1,143,835

17. CONDITIONAL GOVERNMENT GRANTS

In June 2020, CityTeam was awarded two grants from the Federal Home Loan Bank of San Francisco for the 2020 Affordable Housing Program (AHP). Initial funding is expected during the year ending August 31, 2021 through loans that may become grants 15 years after project completion, if all conditions are met.

Conditional government grants are recognized when the Organization meets the terms of the conditions in the grant agreement.

The conditional government grants are detailed as follows:

Affordable Housing Program	\$ 2,155,000
Paycheck Protection Program (See Note 8)	1,558,000
	\$ 3,713,000

18. CONTRIBUTIONS IN-KIND

The estimated fair value of donated supplies and expert services are recorded as contributions.

	2020	2019
Food	\$ 8,160,169	\$ 5,821,639
Clothing	2,186,718	5,427,490
Supplies	1,976,585	1,642,370
Professional Services	125,234	168,847
Property and equipment	53,407	65,980
Total	\$ 12,502,113	\$ 13,129,326

19. SUBSEQUENT EVENTS

- a. In August 2020, CityTeam signed an agreement for the purchase of real estate in San Jose, California for \$14,500,000. The property includes a fifty-unit apartment complex which will allow for the expansion of CityTeam's programs for women and children. The closing of the transaction has been delayed due to a longer than anticipated approval process from the City of San Jose.

- b. In November 2020, CityTeam entered into a contract for the construction and installation of a combination cooler freezer designed to expand the scope and quantity of its food delivery program. The purchase was financed with a \$272,947 forgivable loan from the County of Santa Clara's Homeless Emergency Aid Program (HEAP). Loan principal and interest of 3%, due January 31, 2031, will be forgiven if the property is continuously used for the agreed upon food distribution program.